浦林成山
PRINX CHENGSHAN

Prinx Chengshan (Cayman) Holding Limited
浦林成山（開曼）控股有限公司

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

Stock Code: 1809

PURSUE EXCELLENCE
ANNUAL REPORT 2018

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Corporate Information

Board of Directors

Executive Directors

Mr. Che Baozhen
Mr. Shi Futao
Ms. Cao Xueyu

Non-executive Directors

Mr. Che Hongzhi
Mr. Wang Lei
Mr. Chen Yansheng

Independent non-executive Directors

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

Audit Committee

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

Nomination and Remuneration Committee

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

Development Strategy and Risk Management Committee

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

Registered Office

PO Box 472
Harbour Place, 2nd Floor
103 South Church Street
George Town
Grand Cayman KY1–1106
Cayman Islands

Authorized Representatives

Ms. Cao Xueyu
Mr. Shi Futao

Company Secretary

Ms. Lam Yuk Ling (ACIS, ACS)

Legal Advisor

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

Compliance Adviser

Messis Capital Limited
Room 1606, 16/F, Tower 2
Admiralty Centre
18 Harcourt Road
Hong Kong

Principal Banks

Bank of China Limited
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 Registrar and Transfer Office

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1–1108
Cayman Islands

Hong Kong Share Registrar

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

Company's Website

www.prinxchengshan.com

Stock Code

1809

Listing Date

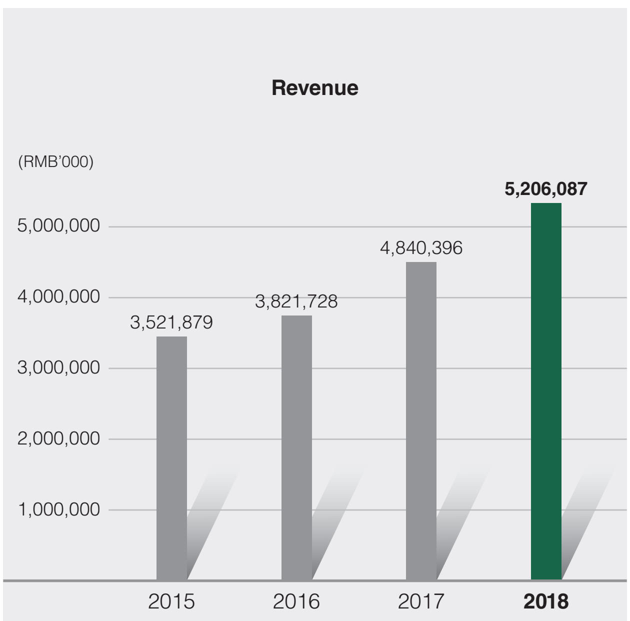
October 9, 2018

Summary of the Consolidated Statement of Profit or Loss

	Year ended 31 December			
	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**5,206,087**	4,840,396	3,821,728	3,521,879
Profit before income tax	**561,780**	210,018	346,182	296,125
Income tax expense	**(83,180)**	(36,446)	(54,976)	(132,981)
Profit for the year	**478,600**	173,572	291,206	163,144
Profit attributable to:				
— Shareholders of the Company	**478,600**	173,698	291,206	163,144
— Non-controlling interests	**—**	(126)	—	—
	478,600	173,572	291,206	163,144

Consolidated Assets, Liabilities and Non-controlling Interests

	As at 31 December			
	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**5,256,420**	3,975,987	3,750,723	3,143,073
Total liabilities	**(2,210,463)**	(2,374,738)	(2,254,086)	(1,891,137)
Non-controlling interests	**126**	126	—	—
	3,046,083	1,601,375	1,496,637	1,251,936



Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Prinx Chengshan (Cayman) Holding Limited (the "**Company**" or "**Prinx Chengshan**"), I am pleased to present the annual report of 2018 of the Company for your review.

Since 2018, China's economic restructuring, transformation and upgrading entered a critical stage, and economic development entered a new normal. The global economic development also encountered many difficulties and uncertainties. The development of the automobile industry was affected during this period, and the global automobile production and sales declined year-on-year. At the same time, the development of tire industry is polarized due to the further improvement of environmental protection and safety supervision standards in China. Some enterprises are gradually withdrawing from the market, while others are seizing the opportunity to enhance market share. Prinx Chengshan has seized the opportunity, through industry benchmarking and in-depth analysis of its own development under the new situation, to put forward the internationalization and technological development as a new development engine, to help the Company embark on a new journey. In 2018, the Company's production and sales reached a new high, its market share was further enhanced, and its brand awareness and influence were further expanded.

In the past year, Prinx Chengshan always focused on building core competitiveness. Through the establishment of two sales companies in Europe and the United States, the Company has further enhanced its market development ability and increased the quantity and quality of overseas operations. The preparations for the construction of the production base in Thailand are progressing steadily and orderly. The Company firmly promotes the transformation and application of scientific research achievements by continuing to accelerate the research and development of core technologies, as well as speed up the serialization and industrialization of technical products. Meanwhile, in order to meet with customer demand for tires in different regions and different road conditions to the greatest extent, Prinx Chengshan continues to focus on customer need, accelerate the upgrading of integrated service capabilities, and is committed to providing targeted one-stop tire solutions that meet with customer demand.

During the year ended December 31, 2018 (the "**Reporting Period**"), the Company has revenue of RMB5,206.1 million, representing an increase of 7.6% over the same period last year. Profit before income tax was RMB561.8 million, representing an increase of 167.5% over the same period last year, while profit attributable to the shareholders of the Company was RMB478.6 million, representing an increase of 175.5% over the same period last year. Earnings per share amounted to RMB0.90, representing an increase of 125.0% over the same period last year.

Facing opportunities and challenges, Prinx Chengshan will devote more energetic spirit to the new year's battle, with the aim of maximizing shareholders' interests, comprehensively improve the happiness index of all employees, enhance customer satisfaction, and strengthen corporate governance, so as to promote more brilliant achievements in 2019.

Che Hongzhi
Chairman

Hong Kong, February 25, 2019

BUSINESS REVIEW AND OUTLOOK

As a leading domestic tire manufacturer in the PRC's Commercial All Steel Radial Tire replacement market, Prinx Chengshan has been engaged in tire design, production and manufacturing for 42 years, adhering to the core strategy of cost leadership, efficiency driven, competitive differentiation and global operation.

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

During the Reporting Period, based on our business plan pre-determined in 2018, viewing "providing tire whole-life cycle services" as our mission and taking "customer first, openness and innovation, hardworking, mutual benefits" as our core value, the Company has carried out the following activities:

(1) To emphasize the key role of quality for enterprise survival and development, we have adopted zero-tolerance policy for quality issues throughout the Company and its subsidiaries (the "**Group**"), strictly followed all required manufacturing processes and actively implement quality inspection system in order to detect and eliminate any quality problems before the products get into the market.

(2) During the Reporting Period, the Company manufactured 4.78 million and sold 4.68 million All Steel Radial Tires, manufactured 5.91 million and sold 5.96 million (including some finished goods at the beginning of the period) Semi-Steel Radial Tires. The tire sales volume of the Company for the year 2018 was 11.09 million, which was a record high, representing an increase of 4.4% as compared with the same period of 2017. The sales revenue was RMB5,206.1 million for the year ended December 31, 2018, representing an increase of 7.6% as compared with the same period last year and a compound annual growth rate ("**CAGR**") of 16.7% from 2016 to 2018. The net profit was RMB478.6 million for the year ended December 31, 2018.

(3) Better aligning our market layout with resulted in a customers' demand improving, our sales channel coverage enhancing, our brand strength further increased of our market share. The Company has flattened the organization of its replacement business, as a result of which its capabilities to control the market, serve the front-end and information exchange has improved significantly. The number of vehicle type we work with vehicle manufacturers increased by 10%, and the effectiveness of in-depth cooperation with the manufacturers has been further proven. Both of our sales volume and earnings recorded significant growth year on year. We began business with 43 new customers in the international market and the geographical coverage of our business has extended to new countries and regions such as Argentina and Guinea.

(4) We established a tire leasing business investment company, Qingdao Zhianda Investment Company Limited* (青島智安達投資有限公司), which represents a new model of tire service and can complement the Company's existing business model and bring synergy.

(5) The construction of our overseas production base has been making steady progress and we entered into the purchase agreement to acquire a piece of land in Thailand for the construction of our production base.

(6) Our R&D capability achieved significant improvement. The innovation center of multi-scale tire life cycle manufacturing in Shandong, which was initiated by the Company, has completed the final inspection and acceptance procedure and is the only manufacturing industrial innovation center of the tire industry in Shandong Province. The efficiency of our R&D work has increased by 60% through utilizing simulation and modular design technologies. Our national-level technology center was recognized as top one in the tire industry in China for the sixth consecutive year and our Company was the only one that was praised as an excellent enterprise in the industry.

(7) The Company made efforts to explore new operating model based on the existing lean production model, to integrate the supply chain, control the procurement costs and enhance the competitiveness of our products while strictly following our internal control requirements, which in turn lays a solid foundation for reducing costs and improving efficiency. During the Reporting Period, the decrease of cost per tire is mainly due to a decrease of raw material cost per tire. In addition, our selling expenses dropped 6.2% year on year, mainly attributable to a significant decrease in the expense for warranty claim as a result of the decrease of sales to domestic distributors with higher claim rates and the improvement of our product quality.

(8) We have established and improved our human resources management system, and have optimized the mechanism for staff training, evaluation and promotion. A number of employees in our talent pool who have a strong sense of commitment and responsibility and outstanding performance record were promoted to management posts to take more important duties through means including talent selection and recruiting competition. During the Reporting Period, in accordance with its training plan, the Company devoted more resources and efforts to employee training and provided the staff with a variety of programs including self-training, internal training and training from external professionals, in order to upgrade the knowledge of all levels of production and management staff. In the production process, we have further promoted the implementation of lean six sigma doctrine principle. The Company provided lean six sigma doctrine training program to the whole senior management, in order to let the sense of improvement take root in their mind, and provided lean six sigma doctrine training program to our middle and junior management and engineers so that they can conduct Six Sigma improvement projects independently.

(9) We promoted the implementation of integration of informatization and industrialization whereby we strived to digitalize our plant and develop green manufacturing. The Company established and upgraded the enterprise control center (ECC) system, enterprise resource planning (JDE) system, customer-relationship management (CRM) system, product lifecycle management (PLM) system, manufacturing execution system (MES), supplier-relationship management (SRM) system and Amoeba Management, through which we have digitalized and realized the synergy and vertical integration of sale, R&D, design, manufacturing process, procurement and internal resource.

(10) In October 2018, the Company acquired 94,604,000 shares of a Hong Kong listed company Hengdeli Holdings Limited (stock code: 3389) at a price of HK$0.36 each share, with market value totaling HK$34,057,440. By the end of December 31, 2018, the market price of the stock of that company was HK$0.35 with market value totaling HK$33,111,400, which resulted in a book loss of HK$946,040. Hengdeli Holdings Limited principally engages in the retail and distribution of other middle-to-high-end consumables such as the internationally renowned watches, providing relevant service for customer and manufacturing ancillary extension products business.

FINANCIAL REVIEW

Revenue

During the year ended December 31, 2018, revenue of the Group amounted to approximately RMB5,206.1 million, representing an increase of approximately RMB365.7 million compared to approximately RMB4,840.4 million for the year ended December 31, 2017.

Sales by product type	2018 RMB'000	2017 RMB'000
All Steel Radial Tires	**3,968,945**	3,692,706
Semi-Steel Radial Tires	**1,093,195**	940,145
Bias Tires	**143,947**	207,545
Total	**5,206,087**	4,840,396

During the year ended December 31, 2018, revenue from sales of all steel radial tires increased by approximately 7.5% from approximately RMB3,692.7 million for the year ended December 31, 2017 to approximately RMB3,968.9 million, which was primarily attributable to 4.9% increase in our sales volume; revenue from sales of semi-steel radial tires increased by approximately 16.3% from approximately RMB940.1 million for the year ended December 31, 2017 to approximately RMB1,093.2 million for the year ended December 31, 2018, which was primarily attributable to 9.3% increase in our sales volume. The decrease in revenue from sales of bias tires was primarily attributable to the slowdown of the global bias tires market.

Sales by channel	2018 RMB'000	2017 RMB'000
Distributors		
Domestic	**1,811,418**	1,774,498
International	**1,545,076**	1,341,025
	3,356,494	3,115,523
Direct Sales to Vehicle Manufacturers	**1,194,491**	975,037
Private Label Customers	**655,102**	749,836
Total	**5,206,087**	4,840,396

During the year ended December 31, 2018, revenue from sales to distributors increased from approximately RMB3,115,5 million for the year ended December 31, 2017 to approximately RMB3,356.5 million, which was primarily attributable to approximately 15.2% increase in revenue from international distributors from approximately RMB1,341.0 million for the year ended December 31, 2017 to approximately RMB1,545.1 million for the year ended December 31, 2018 as a result of the continuous expansion of overseas distribution network in 2018.

During the year ended December 31, 2018, revenue from sales to vehicle manufacturers increased from approximately RMB975.0 million for the year ended December 31, 2017 to approximately RMB1,194.5 million, which was primarily attributable to increasing customer orders due to our long-term high-level product quality and comprehensive after-sales services.

During the year ended December 31, 2018, revenue from sales to private label customers decreased from approximately RMB749.8 million for the year ended December 31, 2017 to approximately RMB655.1 million, which was primarily attributable to the overall reduction in sales of tires to Cooper under contractual arrangements and impacts caused by tariff imposed by the United States government on products imported from the PRC.

Costs of Sales

The Group's cost of sales increased from approximately RMB4,071.8 million for the year ended December 31, 2017 to approximately RMB4,203.0 million for the year ended December 31, 2018, representing an increase of approximately 3.2%. Such increase was mainly attributable to the increase by 4.4% of sales volumes offsetted by the decrease of average cost per tire.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year ended December 31, 2018 amounted to approximately RMB1,003.1 million compared to approximately RMB768.6 million for the year ended December 31, 2017, representing a growth of approximately 30.5%. The increase in gross profit is due to the increase in revenue and the rising cost lower than rising revenue as a result of that the average consumed unit price for rubber of main raw materials in 2018 decreased from that of 2017.

The overall gross profit margin increased from approximately 15.9% for the year ended December 31, 2017 to approximately 19.3% for the year ended December 31, 2018. The increase is due to the increase of average sale unit price, and the decrease of average cost per tire as a result of that the average consumed unit price for rubber of main raw materials in 2018 decreased from that of 2017.

Other Income

The Group's other income for the year ended December 31, 2018 amounted to approximately RMB39.8 million, increased by approximately RMB18.3 million from approximately RMB21.5 million for the year ended December 31, 2017. The increase was mainly due to the increase in government grants and sales of scraps for the year ended December 31, 2018. Income from government grants for the year ended December 31, 2018 increased from approximately RMB3.6 million for the year ended December 31, 2017 to approximately RMB17.6 million. Income from sales of scraps for the year ended December 31, 2018 increased from approximately RMB17.9 million for the year ended December 31, 2017 to approximately RMB22.2 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased from approximately RMB321.0 million for the year ended December 31, 2017 to approximately RMB301.1 million for the year ended December 31, 2018, representing a decrease of approximately 6.2%. The decrease is primarily due to a significant decrease in the expense for warranty claim as a result of the decrease of sales to domestic distributors with higher claim rates and the improvement of our product quality.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB116.2 million and RMB82.1 million for the years ended December 31, 2018 and 2017 respectively, representing an increase of approximately 41.6%. Such increase was primarily due to the listing expenses and the increase in employee benefit expenses to support business growth.

Finance Income

For the years ended December 31, 2018 and 2017, the Group's finance income amounted to approximately RMB8.2 million and RMB3.9 million respectively. The increase in finance income was due to the increase in the interest income derived from bank deposits.

Finance Costs

For the years ended December 31, 2018 and 2017, the Group's finance costs amounted to approximately RMB12.8 million and RMB13.5 million respectively. The slight decrease in finance costs was mainly due to the decrease in interest expense on convertible redeemable preferred shares and the increase in interest on bank borrowings during the year ended December 31, 2018.

Income Tax Expense

For the years ended December 31, 2018 and 2017, the Group's income tax expense amounted to approximately RMB83.2 million and RMB36.4 million, represented an increase of approximately 128.2%, as a result of the increase in taxable profit for the year ended December 31, 2018.

Profit for the year

Profit for the year ended December 31, 2018 increased by approximately RMB305.0 million from approximately RMB173.6 million for the year ended December 31, 2017 to approximately RMB478.6 million. Such increase was mainly due to the substantial increase in both revenue and gross profit during the year ended December 31, 2018.

Profit attributable to Shareholders of the Company

Based on the above mentioned factors, for the years ended December 31, 2018 and 2017, the profit attributable to Shareholders of the Company amounted to approximately RMB478.6 million and RMB173.7 million respectively.

Total Comprehensive Income for the year

Total comprehensive income for the year ended December 31, 2018 increased by approximately RMB273.5 million from approximately RMB194.9 million for the year ended December 31, 2017 to approximately RMB468.4 million. Such increase was mainly due to the substantial increase in both revenue and gross profit during the year ended December 31, 2018.

Liquidity and Financial Resources

The Group maintained a sound financial position. As at December 31, 2018, the Group had approximately RMB1,469.3 million in cash and cash equivalents (including restricted cash), representing an increase of approximately RMB661.0 million as compared to that of as at December 31, 2017 (approximately RMB808.3 million), mainly due to the increase of capital raised from listing and net cash generated from operating activities. For currencies of our cash and cash equivalents, see Note 26 to the consolidated financial statements. As at December 31, 2018, the Group had RMB350.0 million in bank borrowings (2017: approximately RMB306.1 million) denominated in RMB at interest rates linked to PBOC rates. The current ratio as at December 31, 2018 was approximately 1.7 (2017: approximately 1.3).

Gearing Ratio

The gearing ratios of the financial years 2018 and 2017 were not meaningful since there was no net debt. 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 convertible redeemable preferred shares on an as-if converted basis plus net surplus/debt, which is total equity and financial liabilities at fair value through profit or loss as shown in the consolidated statements of financial position and net surplus/debt.

Treasury Policy

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, 2018. 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.

Pledge of Assets

As at December 31, 2018, the net book value of the Group's property, plant and equipment amounting to approximately RMB293.7 million (2017: nil) and restricted cash balances amounting to approximately RMB84.0 million (2017: approximately RMB120.3 million) were pledged as security for the Group's bank borrowings and notes payable issuing. Save for the above, the Group did not have any charges on its assets.

Investment

The financial assets held by the Group at fair value through profit or loss mainly included wealth management products of approximately RMB468.5 million and a stock with gross value of approximately RMB29.1 million as at December 31, 2018.

In October 2018, the Group acquired 94,604,000 shares of a Hong Kong listed company Hengdeli Holdings Limited (stock code: 3389) at a price of HK$0.36 each share, with market value totaling HK$34,057,440. By the end of December 31, 2018, the market price of the stock of Hengdeli Holdings Limited was HK$0.35 with market value totaling HK$33,111,400, which resulted in a book loss of HK$946,040.

The Group's securities investment strategy is to choose securities investment opportunities and portfolio carefully. The main reason for the Group's funds management is to effectively use the Company's temporary idle funds. If the Group invests in securities in the future, it will based on its funds situation consider investing in issuers with attractive rates of return, stock price trend, sufficient liquidity and good reputation, as appropriate to minimize risks, thus maintaining a sound financial position.

Exposure to Foreign Exchange Risks

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are dominated in a currency that is not the Group entities' functional currency. The Group mainly operates in the PRC, and is therefore exposed to foreign currency risks arising from various currency exposures, mainly with respect to USD due to certain financial assets and liabilities that denominated in USD.

Exchange rate fluctuations and market trends have always been a concern of the Group. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years ended December 31, 2017 and 2018, the Group entered into currency swap contracts to mitigate the foreign exchange risk. By the end of December 31, 2018, these currency swap contracts were due and certain losses were recorded as a result of fluctuation in the exchange rates of USD.

RISKS AND UNCERTAINTIES

(I) Risks in relation to the overall economic of the PRC

Most of the assets of the Company are currently located in the PRC, and about 58% of the revenue is derived from operations in the PRC. Therefore, the operating results, financial position and prospects of the Company are influenced by the changes in economy, politics, policies and laws in the PRC. As economy in the PRC is at the stage of transforming the way of development, optimizing the economic structure and altering the growth drives, the Company's operations in the PRC might also be affected. Hence, the Company will consolidate and ensure stable and healthy development of the PRC market through enhancing the innovation on technology, strictly maintaining product quality, implementing the strategy of differentiation competition and strengthening after-sale service capacities while taking advantage of globalized operation.

(II) Risks in relation to the fluctuations in exchange rates

Given the fluctuations in the global economy and the tightening and easing of monetary policies by different countries, the Company may be exposed to risks of fluctuations in exchange rates arising from those factors. As revenue derived from overseas operations is accounted for approximately 42% of the total revenue of the Company, and most operational cost and part of revenue are currently denominated in RMB, the occurrence of significant fluctuations in exchange rates will affect the results of the Company. In this regard, (1) 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; (2) the Company will strengthen customer loyalty through establishing plants in Thailand to conduct local production and sale.

(III) Risks in relation to capacity expansion and absorption

The Company intends to expand our All Steel Radial Tires and Semi-Steel Radial Tires production capacities. Please see "Business — Production Capacity — Expansion Plans" in the Prospectus for further details. The progress of such development projects are subject to various factors, including timely delivery and successful installation of key equipment. In addition, whether such projects may be completed within budget is subject to the accuracy of the assumptions we used in the project design and engineering. Any failure or delay in project construction or any unexpected cost or cost overrun could have an adverse effect on our business, financial condition and results of operations. Upon completion of the capacity expansion, any failure in capacity absorption resulting from the domestic macroeconomic environment and/or international trade barriers, quality control, shortage of energy and qualified raw materials could reduce the profitability of the Company.

(IV) Impacts caused by tariff imposed by the United States government on products imported from the PRC

On March 22, 2018, U.S. President Trump signed a presidential memorandum declaring that according to the results of the 301 survey, tariffs would be imposed on imports from China on a large scale, and Chinese enterprises would be restricted to invest in and merge with companies in the United States. On September 24, 2018, the United States imposed a 10% tariff on US$200 billion of Chinese imports into the United States. On December 1, 2018, President Trump said that he would maintain a tariff rate of 10% on US$200 billion of Chinese goods other than raising it to 25% from January 1, 2019. During the same date, the leaders of China and the United States initiated negotiations and agreed to work hard to complete the negotiations within a 90-day period. If the two sides could not reach an agreement after the end of the period, the 10% tariff will be raised to 25%. Uncertainty and trend of Sino-US trade war has brought uncertainties to the Company‘s overseas sales.

(V) Risks in relation to overseas investments

The Company has advanced the construction of our overseas production base and has entered into an agreement to purchase lands for the production base in Thailand. However, the construction of our overseas production base may be affected by many factors, including any changes in the investment environment due to changes in local economy, politics, policies and laws in Thailand, any failure in completing the construction period of the project as scheduled for reasons of contractors, government approval or staff, any failure or delay in project financing as a result of changes in international financial market and any failure in carrying out product certification, providing staff support and conducting equipment testing as scheduled.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

CAPITAL STRUCTURE

There has been no change in capital structure of the Company during the year ended December 31, 2018. The capital of the Company comprises ordinary shares and other reserves.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at December 31, 2018, the Group's capital commitment was approximately RMB57.3 million (2017: approximately RMB39.9 million).

The Group has no contingent liability that would result a significant impact during the year ended December 31, 2018.

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

The Group did not have any significant investments, material acquisitions, and disposals of subsidiaries and associated companies during the year ended December 31, 2018.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OR CAPITAL ASSETS

On December 25, 2018, Prinx Chengshan Tire (Thailand) Co., Ltd. ("**Prinx Thailand**"), an indirect wholly-owned subsidiary of the Company, entered into a land purchase agreement with an independent third party, pursuant to which Prinx Thailand agreed to acquire a land plot located at Tambon Nong Suea Chang, Amphur Nong Yai, and Tambon Klong-Kew, Amphur Ban-Bung, Chonburi province, Thailand with land title deeds nos. 4499, 4500, 4501, 4502, 4495, 4496 and 5659 and an aggregate area of between 271 Rais and 300 Rais (equivalent to between 433,600 square meters and 480,000 square meters) (the "**Land**") at a consideration of Baht 806,060,888.60 (equivalent to approximately RMB170.6 million), subject to adjustment. The details of the transaction could be found in the announcement published by the Company dated December 27, 2018.

The Company intends to construct a tire manufacturing plant on the Land.

Pursuant to the investment plan, the Group has carried out the investment in the first phase of All Steel Radial Tires capacity expansion and expansion of Semi-Steel Radial Tires production capacity.

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

HUMAN RESOURCES MANAGEMENT

As at December 31, 2018, the Group had a total of 4,502 employees. The employee benefit expenses of the Group were RMB429.7 million for the year ended December 31, 2018 (2017: RMB356.1 million). To attract, retain, motivate and encourage the employees to contribute to creating values for the Company and Shareholders, the Group provided training courses for the employees to develop their skills, because the relevant skills are required by us to meet the company target, customer demand, custodial and regulatory requirements and contractual obligations. The full-time employees (except independent contractors) also enjoy various employee benefit plans. The Group has no share option scheme.

EXECUTIVE DIRECTORS

Mr. Che Baozhen (車寶臻先生), aged 36, was appointed as our Director on May 22, 2015. He was also appointed as a member of the Nomination and Remuneration Committee. He has also been the General Manager of one of our subsidiaries, Prinx Chengshan (Shandong) Tire Company Limited* (浦林成山(山東)輪胎有限公司, "**Prinx (Shandong) Tire**") since April 2017. Mr. Che joined our Group in December 2005. He is a director of all of our subsidiaries except Prinx Chengshan (Qingdao) Industrial Research & Design Company Limited* (浦林成山(青島)工業研究設計有限公司, "**Prinx (Qingdao)**"), Prinx Chengshan Europe, s.r.o ("**Prinx (Europe)**"), Prinx Chengshan Tire North America Inc.* (浦林成山輪胎北美公司) and Prinx Chengshan Tire (Thailand) Co., Ltd. Mr. Che is also our chief executive officer. He has over 13 years of experience in automotive tire industry and is responsible for the overall day-to-day operations, management, administration and strategic planning of our Group. As a General Manager of Prinx (Shandong) Tire, Mr. Che is also responsible for the overall management of Prinx (Shandong) Tire. Prior to joining our Group, Mr. Che was a staff in Chengshan Group Company Limited* (成山集團有限公司, "**Chengshan Group**") from December 2003 to May 2010. He was responsible for handling external relations with external parties and asset management. In June 2010, Mr. Che was appointed as the assistant of general manager in Shandong Haizhibao Ocean Technology Company Limited* (山東海之寶海洋科技有限公司). In December 2010, Mr. Che was appointed as the chairman of Rongcheng Chengshan Construction Property Limited Company (榮成成山建設置業有限公司).

Mr. Che obtained undergraduate bachelor degree in computer sciences and technology from the University of Science and Technology (北京科技大學) 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, who is our Chairman of the Board and non-executive Director.

Mr. Shi Futao (石富濤先生), aged 49, was appointed as our Director on October 28, 2015. Mr. Shi joined our 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 has over 20 years of experience in accounting and financial management in the PRC. Mr. Shi is responsible for the overall financial management of our Group. During the period between February 2003 and February 2004, he was the financial director in Shanghai Waigaoqiao Free Trade Zone Group Company Limited* (上海外高橋保稅區開發股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600648 for A-shares and 900912 for B-shares). From May 2004 to April 2007, Mr. Shi was the financial controller of Chengshan Group.

Mr. Shi obtained a master degree in company finance from The University of Salford in Manchester, the United Kingdom in December 2002. He was awarded with the first stage of high-end accounting personnel training engineering enterprises certificate (山東省高端會計人才培養工程企業一期證書) by Shandong Provincial Party Committee Organization Department, the Shandong Province Finance Bureau and the Shanghai National Accounting Institute (山東省委組織部、山東財政廳和上海國家會計學院) in April 2014. He was admitted as a non-practicing certified accountant by the Chinese Institute of Certified Public Accountants ("**CICPA**") in 1995. Mr. Shi was recognized as a Senior International Finance Manager ("**SIFM**") by the International Financial Management Association in December 2011. 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.

In December 2012, Mr. Shi was awarded with the prize of Shandong Province Enterprise Management Modernization Innovation for the full implementation of budget management to improve economic efficiency of enterprises (《全面實施預算管理提高企業經濟效益 — 山東省企業管理現代化創新成果一等獎》) by Shandong Enterprises Management Modernized Innovation Results Review Committee (山東省企業管理現代化創新成果評審委員會) and Shandong Provincial State-owned Assets and Administration Commission (山東省國有資產監督管理委員會). He was further awarded as an advanced worker in accounting (會計先進工作者) by the Shandong Province Finance Bureau (山東省財政廳) in January 2014.

Ms. Cao Xueyu (曹雪玉女士), aged 48, was appointed as Director on March 5, 2018. She joined the Group as a director of Prinx Chengshan (Hong Kong) Tire Limited ("**Prinx Hong Kong Tire**") on July 1, 2016. Ms. Cao is responsible for the overall management, administration and strategic planning of the Group. 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., and worked as an accounts clerk in its national office in New Zealand and was promoted to the role of assistant accountant in April 2001 until May 2004. In September 2004, Ms. Cao was the finance manager of Wistar Enterprises Limited. She was responsible for supervising the finance team of the company to provide financial and management accounting support to the subsidiaries of the company.

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

NON-EXECUTIVE DIRECTORS

Mr. Che Hongzhi (車宏志先生), aged 62, was appointed as 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 of the Company's subsidiaries except Prinx (Europe), Prinx Hong Kong Tire, Qingdao Zhianda, Prinx Chengshan Tire North America Inc.* (浦林成山輪胎北美公司) and Prinx Chengshan Tire (Thailand) Co., Ltd. He is also the legal representative of two of the Company's subsidiaries in China. Mr. Che is responsible for providing professional opinion and strategic direction to the Group. Since December 2003, he has been the chairman and executive director of Chengshan Group. He has approximately 19 years of experience in tire production industry. Prior to establishing the Group, Mr. Che was the chairman of Shandong Chengshan Tires Company Limited from October 2000 to May 2010.

Mr. Che obtained a professional certificate in chemistry from Yantai Education College (煙臺教育學院), in July 1987. He was awarded as a national model worker (全國勞動模範) by the State Council of the PRC in April 2005. He was further being credited as an outstanding provincial party member (省優秀黨員) by Shandong Provincial Party Committee, the PRC in June 2016.

Mr. Che is the father of Mr. Che Baozhen, who is executive Director.

Mr. Wang Lei (王雷先生), aged 40, has been appointed as Director since April 20, 2017. He was re-designated as non-executive Director on March 5, 2018. Mr. Wang has also been a director of Prinx (Shandong) Tire since April 20, 2017. In December 28, 2014, he joined the Group as a director of Prinx (Shandong) Tire until October 15, 2015. Mr. Wang is responsible for providing professional opinion and judgment to the Group. Prior to joining the Group, he was employed as vice section chief of the reception section of the general manager office by Shandong Chengshan Tires Company Limited (山東成山輪胎股份有限公司) in December 2001. In October 2007, he acted as the deputy head of general office of Chengshan Group; in December 2009, as the head of general office of Chengshan Group; and in March 2014, as the deputy general manager of administrative center in Chengshan Group. In February 2017, he was appointed as the general manager of the administrative centre of Chengshan Group. Mr. Wang was responsible for the administrative management of the company. Mr. Wang is an executive director of Chengshan Group.

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

Mr. Chen Yansheng (陳延生先生), aged 37, was appointed as Director on October 28, 2015. He was re-designated as non-executive Director on March 5, 2018. Mr. Chen joined the Group in October 20, 2015 as director of the Company and Prinx (Shandong) Tire. He has also been a director of Prinx Hong Kong Tire since October 19, 2015. He is responsible for providing professional opinion and judgment to the Group. Mr. Chen was the department manager of the secretary office of the integrated administration department of China National Heavy Duty Truck Group Co., Limited (中國重型汽車集團有限公司) in January 2009. In May 2014, he has been the vice-general manager of Sinotruk (Hong Kong) Capital Holding Limited and he was the vice-general manager of the Ministry of Environmental Protection of China National Heavy Duty Truck Group Co., Ltd. (中國重型汽車集團有限公司) since June 2018. Mr. Chen obtained an undergraduate degree in mechanical design, manufacturing and automation from Shandong University of Technology (山東理工大學), Shandong, the PRC in July 2003. He further obtained a master degree in vehicle and field engineering from Jiangsu University (江蘇大學), Jiangsu, the PRC in December 2016. Mr. Chen was recognized as a Political analyst by Jinan City Ideological and Political Staff Professional Positions Review Committee (濟南市思想政治工作人員專業職務中級評審委員會) in September 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Xuehuo (張學伙先生), aged 56, was appointed as our independent non-executive Director and the chairman of Nomination and Remuneration Committee, a member of each of the Audit Committee and Development Strategy and Risk Management Committee with effect from September 10, 2018. Mr. Zhang has been the chairman of China Mineral Ventures Limited (中國礦業投資有限公司) ("**China Mineral Ventures**") since 1997. He was the founder of China Mineral Ventures. Mr. Zhang founded China Gold Development Group (H.K.) Limited ("**China Gold**") (中國黃金開發集團(香港)有限公司), a subsidiary of Zijin Mining Group Co., Ltd., the shares of which were listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (Stock Code: 2899) in 1999. He was its chairman from 2003 to 2006. Since 2006, Mr. Zhang has been a director of China Gold. Mr. Zhang was the chairman of Guoda Gold Company Limited* ("**Shandong Guoda Gold**") (山東國大黃金股份有限公司) from 2003 to 2011. Mr. Zhang is currently a director of Shandong Guoda Gold.

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

Mr. Choi Tze Kit Sammy (蔡子傑先生), aged 56, was appointed as our independent non-executive Director and the chairman of the Audit Committee and a member of the Nomination and Remuneration Committee with effect from September 10, 2018. Mr. Choi has over 30 years of experience in finance and auditing. Mr. Choi has been an independent non-executive director of Minshang Creative Technology Holdings Limited (formerly known as Food Wise Holdings Limited 膳源控股有限公司), the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 1632), since July 6, 2018. From October 2016 to August 2017, Mr. Choi was an independent non-executive director of Ernest Borel Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 1856). From January 2007 to November 2015, Mr. Choi was an independent non-executive director of Fufeng Group Limited, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 546) and from February 2016 to February 2017, he was an independent non-executive director of PanAsialum Holdings Company Limited, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 2078).

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

Mr.Choi is now a committee member of Small and Medium Practitioners Committee, Restructuring and Insolvency Facility Executive Committee, and Professional Conduct 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 council member of The Society of Chinese Accountants and Auditors from 2010 to 2015. He has been elected as an honorary financial advisor of Hong Kong and Kowloon Rattan Ware Merchants Association (Wing Hing Tong) in 2018.

Mr. Wang Chuansheng (汪傳生先生), aged 59, was appointed as our independent non-executive Director and a member of each the Audit Committee and Development Strategy and Risk Management Committee with effect from September 10, 2018. Mr. Wang has been the director of Academic Division of Engineering in Qingdao University of Science & Technology since December 2016. In November 2015, Mr. Wang was appointed as the distinguished expert by Taishan Scholars. Mr. Wang was a teacher of the mechanical faculty in Shandong Institute of Chemical Engineering from July 1982 to September 1984. Mr. Wang has been working at Qingdao University of Science & Technology (previously known as Qingdao Institute of Chemical Technology) (the "**University**") since September 1984. From September 1984 to November 1984, Mr. Wang was a teacher in chemical machinery faculty at the University. During the period between November 1984 and June 1995, he was the vice office manager of the chemical machinery faculty at the University. From June 1995 to December 1995, he acted as the vice-manager of the mechanical engineering faculty. Mr. Wang was promoted to the position of vice-principal of the machinery engineering faculty in December 1995, In March 2002, he was further promoted to the vice-principal of the electromechanical engineering faculty of the University. From April 2004 to December 2016, Mr. Wang was the head of the electromechanical engineering faculty of the University before he was promoted to the current position.

Mr. Wang obtained a doctor degree in chemical process mechatronic engineering from School of Electromechanical Engineering (機電工程學院), the PRC in June 2000. He was recognized as the professor of Qingdao University of Science & Technology by Shandong Province Higher Education Teacher Position Advanced Review Committee (山東省高等學校教師職務高級評審委員會) in December 1999.

Mr. Wang was awarded with the Second-Class National Science and Technology Progress Award — Synchronous Rotor Mixer Technology (國家科學技術進步二等獎 — 同步轉子密煉機的技術) by the State Council of the PRC in December 2001. He was further awarded with the Second-Class National Science and Technology Progress Award — Industrialisation of waste rubber and waste plastics pyrolysis of resources utilisation of complete sets of technology and equipment (國家科學技術進步二等獎 — 工業連續化廢橡膠廢塑料低溫裂解資源化利用成套技術及裝備) by the State Council of the PRC in December 2011. In October 2013, Mr. Wang was recognized as the National Oil and Chemical Outstanding Science and Technology Worker (全國石油和化工優秀科技工作者) by the China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會).

SENIOR MANAGEMENT

Mr. Qu Xuexin (曲學新先生), aged 56, has been a vice-general manager in Prinx (Shandong) Tire since April 2017. Mr. Qu joined our Group in March 2006 as the assistant engineering director. He is responsible for the overall management of the manufacturing centre, equipment productivity centre (including equipment engineering system) of our Group. Prior to joining our Group, Mr. Qu was the Chief of the equipment & power branch in Rongcheng Rubber Factory (榮成縣橡膠廠) in February 1987. Mr. Qu was one of the preparation leadership team members of Rongcheng Second Rubber Plant and Chemical Plant (榮成市第二橡膠廠和化工總廠) in July 1990. In April 1996, he acted as the director of the energy saving metering department of Chengshan Group; in August 1998, as the director of production plan department of Chengshan Group; and in September 2007, as the director of the equipment department of Cooper Chengshan.

Mr. Qu obtained undergraduate bachelor degree in rubber machinery engineering from the chemical machinery faculty of Shandong Chemical Engineering Institute (山東化工學院) in Shandong, the PRC in July 1983. Mr. Qu was recognized as an engineer by Engineering Technical Services Mid-tier Review Committee of Weihai City (威海市工程技術職務中級評審委員會) in May 1994. He was recognized as a senior engineer by Human Resources and Social Security Department of Shandong Province (山東省人事廳) in December 2000. In December 2014, he was awarded as an industrial technology application researcher (工業技術應用研究員) by Engineering and Technical Services Senior Review Committee of Shandong Province (山東省工程技術服務高級評審委員會).

In February 2014, Mr. Qu obtained the Science Technology Award in Shandong Province (山東省科學技術獎) from the People's Government of Shandong Province (山東省人民政府). In November 2014, he was further awarded with the Second-class Technical Innovation of Workers Achievements Award in Weihai City (威海市職工技術創新成果二等獎) by the General Union of Weihai City (威海市總工會). Mr. Qu obtained the Era Elite Award of Rubber Machinery Industry in China from China Petroleum & Chemical Survey and Design Association R&P Professional Committee (中國石油和化工勘察設計協會橡膠塑料設備專業委員會), National Machinery Information Centre of R&P Industry (全國橡塑機械信息中心), Rubber & Plastics Energy-saving and Environmental Protection Centre (石油和化工橡塑節能環保中心) and China Rubber & Plastics Technology and Equipment Magazine House (《橡塑技術與裝備》雜誌社) in October 2016. In March 2015, he was recognized as the Gold Worker by General Union of Weihai City.

Mr. Ju Xunning (鞠訓寧先生), aged 52, has been our Company's vice-general manager since February 2018 and the director of Prinx Chengshan Tire (Thailand) Co., Ltd. since December 20, 2018. Mr. Ju has also been the general manager of the semi-steel affairs department of Prinx (Chengshan) Tires (浦林(成山)輪胎) since July 2017. He joined our Group in March 2006 as the assistant to the quality systems director in Prinx (Shandong) Tire (浦林(山東)輪胎). 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 for all-steel products in January 2012, and in August 2013, he became the production director and continued to hold the office of vice-chief officer of the manufacturing 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 (浦林(山東)輪胎) in December 2016 before he was appointed to the current position, and was appointed as the chief technology officer for semi-steel products of the Group in July 2017. Mr. Ju was responsible for the overall operation and management of the semi-steel business department of our Group. He joined Rongcheng Rubber Factory as a trainee in July 1988, and was promoted to the position of the chief of the phase I engineering formula design department for radial tires in Rongcheng Guotai (榮成國泰) 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. (山東成山集團有限公司).

Mr. Ju was awarded with a professional diploma in rubber engineering by Qingdao University of Science & Technology (青島化工學院) in July 1988. Mr. Ju was recognized as a senior engineer by the Engineering and Technical Services Review Committee of Shandong Province (山東省工程技術服務評審委員會) in December 2001. In October 1998, Mr. Ju was awarded with the First-class Provincial Science Technology Progress Award -300,000 sets/year Radial Tire Industrial Production Technology (一等省科學技術進步獎 — 30萬套/年子午線輪胎工業性生產技術) by Shandong Province Science and Technology Progress Award Review Committee (山東省科學技術進步獎評審委員會). In December 1999, Mr. Ju was awarded with the Second-class National Science and Technology Progress Award — 300,000 sets/year Radial Tire Industrial Production Technology (國家科技術進步二等獎 — 30萬套/年子午線輪胎工業性生產技術) by the Ministry of Science and Technology of the PRC. In April 2000, he was recognized as the Top 10 Youth Talent by the Communist Youth League of China in Rongcheng City, Rongcheng Broadcasting Bureau and Rongcheng Daily Newspaper. In December 2013, he was awarded with the First-class Hundred Technical Innovation of Workers Achievements Award in Weihai City (威海市職工百項技術創新成果一等獎) by the Weihai City Labour Competition Committee (威海市勞動競賽委員會).

Mr. Liu Changbo (劉昌波先生), aged 54, was appointed as the research and development center general manager of the Company in July 2017. Mr. Liu has also been a manager and the general manager of Prinx (Qingdao) and Prinx (R&D) since January 2017 and September 2017, respectively. He is also a director of Prinx (R&D). Mr. Liu served as an intern at Rongcheng Rubber Factory in July 1989, and joined the Group in August 1990 as an assistant engineer. In May 2001, he was promoted to the head of technology center office of Prinx (Shandong) Tire, and in May 2004, he was appointed as the manager of the second technological R&D division of the Group's technology center. Mr. Liu was promoted to the chief semi-steel technology officer of the Company in March 2014. He is responsible for the development of new products, products improvement, and overall technology management of the Company and the formulation of technological standard of the Group.

Mr. Liu obtained a bachelor degree in rubber engineering from Qingdao University of Science and Technology (青島化工學院) in July 1989. He has been recognized as a senior engineer by Shandong Province Engineering Technology Position Senior Review Committee(山東省工程技術職務高級評審委員會) since November 2002. In October 1998, Mr. Liu was awarded with the First-class Shandong Province Science and Technology Progress Award — 300,000 sets/year Radial Tire Industrial Production Technology (山東省科學技術進步一等獎 — 30萬套／年子午線輪胎工業性生產技術) by Shandong Province Science and Technology Progress Award Review Committee (山東省科學技術進步獎評審委員會). He was further awarded with the Second-class National Science and Technology Progress Award — 300,000 sets/year Radial Tire Industrial Production Technology (國家科學技術進步二等獎 — 30萬套／年子午線輪胎工業性生產技術) by the Ministry of Science and Technology of the PRC in December 1999. In November 2006, Mr. Liu obtained a Second-class award of Science and Technology Progress Prize (科技進步二等獎) from China Petroleum and Chemistry Industry Association (中國和石油化學工業協會).

Mr. Liu Weicai (劉維才先生), aged 44, has been the human resources center general manager of the Company since November 2017. He is responsible for the overall human resources work of the Group. Mr. Liu joined the Group in November 2017. Prior to joining the Group, in March 2006, Mr. Liu was the partner of Jinan Beite Management Consultants Company Limited (濟南貝特管理諮詢有限公司). He was the human resources manager of Fufeng Group Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 546), from July 2008 to August 2014. In August 2014, he joined Shandong Sun Paper Industry Company Limited (山東太陽紙業股份有限公司) as the chief human resources officer until September 2017.

Mr. Liu obtained a professional diploma in industrial analysis from North University of China (華北工學院) in July 1996. He further obtained a master degree in business management from Shandong University (山東大學) in December 2007. Mr. Liu obtained the mid-tier business management qualification from the Ministry of Personnel of the PRC in November 2002.

Mr. Wang Yu (王璵先生), aged 45, has been the commercial vehicle replacement center general manager of the Company since July 2017. He joined the Group in February 2004 as a regional manager of Prinx (Shandong) Tire and was promoted to the position of sales manager in North China in June 2009 and vice-sales market department officer in April 2010, respectively. In March 2014, Mr. Wang was further promoted to the chief sales and market department officer position. Mr. Wang was responsible for the overall sales of commercial vehicle tire replacement of the Group. Prior to joining the Group, he joined Shandong Chengshan Tires Company Limited in August 2001 as a sales consultant.

Mr. Chu Xiaohua (初曉華先生), aged 35, has been the international sales center general manager of the Company since November 2018. He has been the Qingdao international sales center general manager of the Company in May 2017 when he first joined the Group. Mr. Chu is responsible for the overall international sales of the Group. Prior to joining the Group, Mr. Chu was a salesman when he first joined Qingdao Crowntyre International Trade Company Limited (青島科昂國際貿易有限公司) in May 2008. Mr. Chu was then promoted to work as a 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 Centers Inc in July 2015. He is responsible for the overall business operations, and coordination of sales, marketing and logistics of the Company.

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

Mr. Che Jing (車晶先生), aged 48, has been the original equipment tire sales center general manager of the Company since July 2017 when he first joined the Group. Mr. Che is responsible for the domestic sales of the original equipment products, development, management and maintenance of sales channels of the Company. Prior to joining the Group, Mr. Che was a vice-general manager in Rongcheng City Modern Decoration Company Limited (榮成市現代裝飾有限公司) in October 1998. He was responsible for the overall transactional works of the company. In November 2005, Mr. Che was the general manager of Rongcheng City Xin Da Storage and Logistics Company Limited (榮成市鑫達倉儲物流有限公司), being responsible for the overall works done by the company. Mr. Che obtained a bachelor degree in corporate management from Yantai University (煙台大學), the PRC in July 1997.

COMPANY SECRETARY

Ms. Lam Yuk Ling (林玉玲女士), is the company secretary of our Company. She is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She graduated from The Hong Kong Polytechnic University in November 2004. She has over ten years of working experience in company secretarial profession. She is now working at TMF Hong Kong Limited.

* *For identification purpose only*

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended December 31, 2018 (the "**Reporting Period**").

LISTING ON THE HONG KONG STOCK EXCHANGE

The ordinary shares of our Company (the "**Shares**") were successfully listed (the "**Listing**") on the Main Board of the Hong Kong Stock Exchange on October 9, 2018 (the "**Listing Date**") which marked a significant milestone for our Group. 135,000,000 Shares were issued under the global offering at the price of HK$5.89 per Share, raising net proceeds of approximately HK$738.4 million (after deducting listing expenses). The net price of the issued Shares was HK$5.47 per Share. The additional capital raised allows us to support the growth and expansion of the Group. As at the Listing Date, the share capital of the Company was US$31,750, divided into 635,000,000 ordinary shares of US$0.00005 each.

USE OF PROCEEDS

The net proceeds from the Listing were approximately HK$738.4 million (after deducting listing expenses), which are intended to be utilized in the manner as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated September 24, 2018 (the "**Prospectus**").

The Group had utilized approximately HK$134.3 million of the net proceeds as at December 31, 2018. The unutilized net proceeds of approximately HK$604.1 million have been placed as interest bearing deposits with licensed bank in Hong Kong and Mainland China and are intended to be applied in the manner consistent with the proposed allocations.

As at December 31, 2018, the net proceeds had been utilized as follows:

Use of proceeds	Proposed use of proceeds *HK$ million*	Utilized *HK$ million*	Unutilized *HK$ million*
Investment in the first phase of All Steel Radial Tires capacity expansion	34.7	34.7	0.0
Investment in the second phase of All Steel Radial Tires capacity expansion[1]	264.3	0.0	264.3
Expansion of Semi-Steel Radial Tires production capacity[2]	146.2	48.8	97.4
Overseas investment[3]	221.5	20.3	201.2
Working capital[4]	71.7	30.5	41.2
	738.4	134.3	604.1

The use or proposed use of proceeds from the Listing is in compliance with the plans previously disclosed by the Company and there have been no material changes or delays.

1. It is expected that the Company will invest HK$264.3 million by 2020, and bring it into production in 2021. Detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

2. It is expected that the Company will use the remaining outstanding funds of HK$97.4 million by 2020, and bring it into production in 2021. Detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

3. It is expected to be used to build the tire production base in Thailand, and is expected that the Company will invest the remaining outstanding funds of HK$201.2 million in 2019, and bring it into production in 2020. Detailed schedule depends on the development of the Company, the local politics and economy of Thailand and the progress of obtaining relevant government approval.

4. To be used according to the business requirements of the Group from time to time.

PRINCIPAL BUSINESS

The Company is principally engaged in the manufacturing and sales of tire products in the People's Republic of China (the "**PRC**") and other global markets. The analysis of the Group's principal business for the year ended December 31, 2018 is set out in Note 1 of the consolidated financial statements.

RESULT

The results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 67 to 68 of this annual report.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK$0.238 per ordinary Share for the year ended December 31, 2018. This proposed final dividend is subject to the approval of the Shareholders of the Company (the "**Shareholders**") at the annual general meeting (the "**AGM**") to be held on March 29, 2019, and will be paid on or about May 17, 2019 to those Shareholders whose names appear on the Company's register of members on April 9, 2019.

DIVIDEND POLICY

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

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

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

BUSINESS REVIEW

I. Review of the Company's Business

We are principally engaged in the research and development, manufacture and sale of tire products, which includes three major categories, i.e. All Steel Radial Tire, Semi-Steel Radial Tire and Bias Tire, covering tires for passenger, commercial, industrial and agricultural vehicles as well as certain types of special vehicles. The Company pursued the core strategies of cost leadership, efficiency-driven, competitive differentiation and global operation, and focused on the improvement of the industry chain in order to respond to customers' demand in a systematic, professional and rapid manner and to create value for them. Prinx Chengshan emphasizes on safety, environmental protection, integrity and mutual benefits, and is a company of green development with strong sense of social responsibility.

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

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

Financial indicators	For the year end December 31, 2018	2017	2016
Revenue growth rate (1)	**7.6%**	26.7%	8.5%
Net profit increase rate (2)	**175.7%**	-40.4%	78.5%
Gross profit margin (3)	**19.3%**	15.9%	21.7%
EBIT margin (4)	**10.9%**	4.5%	9.4%
Net profit margin (5)	**9.2%**	3.6%	7.6%
Return on equity (6)	**20.6%**	11.2%	21.2%
Return on total assets (7)	**10.4%**	4.5%	8.5%
Asset-liability ratio (8)	**42.1%**	59.7%	60.1%
Trade receivables turnover days (9)	**68**	66	68
Inventory turnover days (10)	**59**	59	76

Note:

(1) Revenue growth rate = (revenue for the period/revenue for the previous period-1)*100%;

(2) Net profit increase rate = (net profit for the period/net profit for the previous period-1)*100%;

(3) Gross profit margin = (gross profit for the period/revenue for the period)*100%;

(4) EBIT margin = (profit for the period before finance costs-net and income tax expense/revenue for the period)*100%;

(5) Net profit margin = (net profit for the period/revenue for the period)*100%;

(6) Return on equity = (profit attributable to shareholders of the Company for the period/average equity attributable to shareholders of the Company as at the beginning and end of the period) *100%;

(7) Return on total assets = (net profit for the period/average total assets as at the beginning and end of the period) *100%;

(8) Asset-liability ratio = (total liabilities/total assets) *100%;

(9) Trade receivables turnover days = [(gross trade receivables as at the beginning of the period + gross trade receivables as at the end of the period)/2]/revenue for the period *365 days; and

(10) Inventory turnover days = [(gross inventory balance as at the beginning of the period + gross inventory balance as at the end of the period)/2]/cost of sales for the period *365 days.

The Company chose representative financial indicators regarding profitability, operation capacity and solvency to analyze the growth potential of the Company. The Company maintained healthy financial indicators, with a general rising trend in the profit level in the past three years, and in 2018, our revenue increased by 7.6% year on year and our net profit increased by 175.7% year on year. For the year of 2018, the Company recorded a profit before income tax of approximately RMB561.8 million, and no exchange gain or loss had been taken into account, the profit before income tax for the Reporting Period would have increased by 125.9% year on year. Such significant improvement in profitability was mainly attributable to the price rise of tire products and the drop of the price of natural rubber, a major raw material of our products. The asset-liability ratio of the Company as at December 31, 2018 decreased by 17.6 percentage points year on year. During the past three years, the asset-liability ratio of the Company has dropped continuously and the Company has maintained sufficient liquidity and strong solvency. The trade receivables turnover days remained stable at around 67 days in the past three years, and the inventory turnover days remained at around 59 days in the past two years, a decrease of 17 days as compared with 2016, representing a high turnover rate. 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.

II. Details of Major Events Affecting the Company After the End of the Financial Year

In January 2019, Prinx Chengshan (Shandong) Tire Company Limited, a subsidiary of the Group, completed the filing of overseas investment project for the construction of Thailand factory to Shandong Department of Commerce (山東省商務廳) and Shandong Development and Reform Commission (山東省發展和改革委員會). The construction of the tire production base in Thailand entered a substantive stage.

III. Corporate Development Strategy

(I) Company planning

1. We strictly adhere to the implementation of the Company's four core development strategies of "cost leadership, efficiency driven, differential competition, and global operation", grasp the development trend of the industry, fully develop its comparative advantages, and adhere to the principal of efficiency first.

2. We focus on customers, markets, use sales objectives as evaluation tools, and concentrate on six strategic dimensions of marketing, R&D, production, team, system and mode, to build an international first-class tire manufacturer.

3. We strengthen the construction of three talent teams of management, R&D and production, and cultivate the enterprise culture based on the core values of "customer-oriented, open innovation, hard work, and mutual benefit".

4. We select the right brand positioning, excel in brand building, establish a brand system based on the brand "Prinx Chengshan", and build a brand premium capacity based on core products.

5. Based on the Company's innovation center of multi-scale tire life cycle manufacturing, we strive to enhance core R&D capabilities, continuously improve technology value-added services, with an aim to form a competitive advantage in the market.

6. We broaden the channels of staff growth, pay attention to the happiness index of employees, and endeavor to become an enterprise that employees feel happy, welcomed by customers and respected by society.

(II) Opportunities of the Company

1. With the increase of China's automobile ownership, together with the introduction of relevant national policies to reconstruct the industrial structure and optimize the industrial layout, which have regulated the production order of the industry, the tire industry has been promoted, and thus brings opportunities for the development of the Company.

2. The Company's management system is improving, the management team is relatively stable, and the personnel structure is relatively reasonable, which laid a good human resource foundation for the Company's development.

3. The Company's capital structure is reasonable, with sufficient cash flow and financial stability, which provides good financial conditions for leapfrog development.

4. With the distribution of European and American sales companies and overseas production bases, the Company's global production and operation pattern has basically taken shape, and it is confident to be able to meet the challenges brought by the changes in the international situation.

5. The deep cooperation mode of manufacturers and the development of tire leasing business have made the Company closer to the market and customers, enhanced the Company's ability to rapidly response to customer needs, so as to provide customers with more convenient and valuable services.

IV. Company's Environmental Policy and Performance

We are subject to various environmental laws and regulations governing the generation, storage, handling, use, transportation, presence of or exposure to hazardous materials; the emission and discharge of hazardous materials into the ground, air or water, and the use of certain chemical auxiliaries. We generate pollutants such as waste water, waste gas and hazardous wastes in the production process, the discharged pollutants and disposal methods are currently in compliance with national discharge standards or disposal requirements. The Company has environmental information exchange management procedures to receive national and local policies and regulations on environmental protection, and take appropriate action.

V. 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 Management Discussion and Analysis of this annual report.

FINANCIAL SUMMARY

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

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2018, the transaction amounts of our Group's top five customers accounted for 27.6% (2017: 31.2%) of the Group's total revenues while the transaction amounts of our single largest customer accounted for 10.0% (2017: 14.8%) of the Group's total revenues.

Major Suppliers

For the year ended December 31, 2018, the transaction amounts of our Group's top five suppliers accounted for 26.1% (2017: 28.5%) of the total purchases while the transaction amounts of our single largest supplier accounted for 9.0% (2017: 9.1%) of the Group's total purchases.

During the Reporting Period, save as disclosed in Note 39 to the consolidated financial statement, none of the Directors, any of their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the number of the issued shares of the Company) was interested in the top five customers or suppliers of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in Note 27 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out in Notes 42 and 28 to the consolidated financial statements respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

As at December 31, 2018, the Company's reserves available for distribution amounted to approximately RMB2,301.2 million (as at December 31, 2017: approximately RMB1,112.6 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2018 are set out in Note 29 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
Cao Xueyu (appointed on March 5, 2018)
Shi Futao

Non-executive Directors:

Che Hongzhi
Wang Iei
Chen Yansheng

Independent non-executive Directors:

Zhang Xuehuo (appointed on September 10, 2018)
Choi Tze Kit Sammy (appointed on September 10, 2018)
Wang Chuansheng (appointed on September 10, 2018)

Mr. Che Hongzhi, Mr. Che Baozhen and Mr. Shi Futao shall retire by rotation, and offer themselves for re-election at the AGM in accordance with article 108 of the Articles of Association of the Company (the "**Articles of Association**").

Any Director appointed to fill a casual vacancy shall hold office only until the first general meeting of members after his appointment and any Director appointed as an addition to the existing Directors shall hold office only until the next following annual general meeting of the Company in accordance with Article 112 of the Articles of Association. Accordingly, Mr. Zhang Xuehuo, Mr. Choi Tze Kit Sammy and Mr. Wang Chuansheng, each as a Director, will hold office until the AGM and shall be re-elected.

Details of the Directors to be re-elected at the AGM are set out in the circular to Shareholders dated February 28, 2019.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 18 to 28 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 Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**") and the Company considers all of the independent non-executive Directors are independent from the Listing Date up to December 31, 2018.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in Note 39 to the consolidated financial statement, no Director 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 year ended December 31, 2018 and up to the date of this annual report.

MANAGEMENT CONTRACTS

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

EMOLUMENT POLICY

The primary duties of the Nomination and Remuneration Committee 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.

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.

CHANGES OF INFORMATION IN RELATION TO THE DIRECTORS

There was no change to any 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 during the Reporting Period.

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

As at December 31, 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which had been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, are set out as follows:

Name	Capacity/ Nature of interest	Number of shares	Long/Short position	Approximate percentage of shareholding in the Company
Mr. Che Hongzhi	Spouse interest	437,559,500 (Note 1)	Long position	68.91%
Mr. Che Baozhen	Interest in a controlled corporation	437,559,500 (Note 2)	Long position	68.91%

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) Mr. Che Baozhen directly owns 50% of the equity interest in Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司), which in turns owns 95% of the equity interest in Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司), which in turns owns 42.50% of the equity interest in Chengshan Group. As such, Mr. Che Baozhen, Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司) and Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司) are deemed to be interested in the interests in Chengshan Group.

Save as disclosed above, as at December 31, 2018, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong 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 period from the Listing Date and up to December 31, 2018 was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

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

As at December 31, 2018, 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	Approximate percentage of shareholding in the Company
Sinotruk (BVI) Limited	Interest in a controlled corporation	63,400,000 (Note 1)	Long position	9.98%
Sinotruk (Hong Kong) Capital Holding Limited	Beneficial owner	63,400,000 (Note 1)	Long position	9.98%
China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司)	Interest in a controlled corporation	63,400,000 (Note 1)	Long position	9.98%
Sinotruk (Hong Kong) International Investment Limited	Interest in a controlled corporation	63,400,000 (Note 1)	Long position	9.98%
Sinotruk (Hong Kong) Limited	Interest in a controlled corporation	63,400,000 (Note 1)	Long position	9.98%
Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司)	Interest in a controlled corporation	437,559,500 (Note 2)	Long position	68.91%

Name	Capacity/Nature of interest	Number of shares	Long/Short position	Approximate percentage of shareholding in the Company
Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司)	Interest in a controlled corporation	437,559,500 (Note 2)	Long position	68.91%
Chengshan Group	Beneficial owner	437,559,500 (Note 2)	Long position	68.91%
Ms. Li Xiuxiang	Interest in a controlled corporation	437,559,500 (Note 2)	Long position	68.91%
Ms. Bi Wenjing	Spouse interest	437,559,500 (Note 3)	Long position	68.91%

* *For identification purpose only*

Notes:

(1) China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司) owns 100% of the interests of Sinotruk (BVI) Limited, which in turns owns 51% of the issued share capital of Sinotruk (Hong Kong) Limited. Sinotruk (Hong Kong) Limited owns 100% of the issued share capital of Sinotruk (Hong Kong) International Investment Limited, which in turns owns 100% of the issued share capital of Sinotruk (Hong Kong) Capital Holding Limited, which in turns owns 63,400,000 shares of the Company. As such, China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司), Sinotruk (BVI) Limited, Sinotruk (Hong Kong) Limited and Sinotruk (Hong Kong) International Investment Limited are deemed to be interested in 63,400,000 Shares held by Sinotruk (Hong Kong) Capital Holding Limited.

(2) Ms. Li Xiuxiang directly owns 50% of the equity interest in Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司), which in turns owns 95% of the equity interest in Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司), which in turns owns 42.50% of the equity interest in Chengshan Group. As such, Ms. Li Xiuxiang, Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司) and Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司) are deemed to be interested in the interests in Chengshan Group.

(3) Ms. Bi Wenjing is the spouse of. Mr. Che Baozhen. As such, she is deemed to be interested in all the Shares in which Mr. Che Baozhen is interested.

Save as disclosed above, as at December 31, 2018, to the knowledge of the Directors, none of any other person (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register referred to in section 336 of the SFO.

EQUITY-LINKED AGREEMENT

From the Listing Date and up to the date of this annual report, no equity-linked agreements have been entered into by the Company nor there was any subsisted at the end of the Reporting Period.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

From the Listing Date and up to the date of this annual report, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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.

NON-COMPETITION UNDERTAKING

Our controlling shareholders, namely Chengshan Group, Mr. Che Hongzhi, the chairman of the Board of the Company and non-executive Director, Ms. Li Xiuxiang, Mr. Che Baozhen, the executive Director and chief executive officer of the company, Ms. Bi Wenjing, Rongcheng Dongsheng Property Rental Company Limited, Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司), Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司), 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) and Rongcheng Haocheng Shareholding Investment Centre* (榮成浩成股權投資中心) (the "**Controlling Shareholders**") entered into the Deed of Non-Competition on September 10, 2018 pursuant to which the Controlling Shareholders have, irrevocably and unconditionally, undertaken to and covenanted with our Group during the control period that, he/she/it will not, and will procure that his/her/its close associates (except any members of the Group) would not, directly or indirectly, either on his/her/its own or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or hold interests in or engage in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise), any business which is in competition with or likely to be in competition with the Company's business of tire manufacturing and sale of tires business in the PRC.

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

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

Based on the information and confirmation provided by the Controlling Shareholders, the independent non-executive Directors have reviewed the implementation of Non-Competition Undertaking during the Reporting Period, and are satisfied that the Controlling Shareholders have complied with the Non-Competition Undertaking.

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 our Group from the Listing Date and up to December 31, 2018.

RELATED PARTY TRANSACTIONS

Details of the related party transactions were set out in Notes 39 to the consolidated financial statements. Details of any related party transaction which constitute continuing connected transaction not exempted under Chapter 14A of the Listing Rules are disclosed below.

CONTINUING CONNECTED TRANSACTIONS

During the period from the Listing Date and up to December 31, 2018, 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 period from October 9, 2018 (Listing Date) to December 31, 2018 *(RMB'000)*	Annual actual transaction amount for the period from October 9, 2018 (Listing Date) to December 31, 2018 *(RMB'000)*
Chengshan Group	Chengshan Group is the controlling Shareholder	Property leasing	2,000	1,796
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	4,000	1,481
Rongcheng Chengshan Properties Co., Ltd. ("**Rongcheng Chengshan Properties**")	Rongcheng Chengshan Properties is wholly owned by Chengshan Group, the controlling Shareholder	Property services	1,300	1,145

Leasing properties from Chengshan Group

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

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

The Group will continue to lease the properties from Chengshan Group through the transactions contemplated under the Property Lease Agreement. The Directors (including the independent non-executive Directors) therefore consider that it will benefit the Company for the Group to continue the transactions under the Property Lease Agreement after the Listing in 2018. As for the rent amount, for the year of 2018, the cap for these continuing connected transactions in total was RMB2.0 million, and the actual transaction amount for the year was RMB1.8 million.

Purchasing property services from Rongcheng Chengshan Properties

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

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

The Group will continue to purchase property services from Rongcheng Chengshan Properties through the transactions contemplated under the Property Services Agreement. Rongcheng Chengshan Properties has extensive professional experience and abundant labour resources for providing comprehensive property services. The Directors (including the independent non-executive Directors) therefore consider that it will benefit the Company for the Group to continue the transactions under the Property Services Agreement after the Listing in 2018. As for the purchase amount, for the year of 2018, the cap for these continuing connected transactions in total was RMB1.3 million, and the actual transaction amount for the year was RMB1.1 million.

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

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

Pursuant to which Rongcheng Chengshan Energy-Saving Services may from time to time provide Energy-saving Services to the Group. Prinx (Shandong) Tire will enter into separate energy management contracts in respect of the lighting system and the system for tire vulcanization or other energy-saving services in its production plant or other relevant services for energy-saving which will set out the specific terms and conditions according to the provisions under the Energy Management Framework Agreement.

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 conversation projects out of energy saving revenue, and therefore ease pressure on internal capital resources. The Directors (including the independent non-executive Directors) therefore consider that it will benefit the Company for the Group to continue the transactions under the Energy Management Framework Agreement after the Listing in 2018. As for the purchase amount, for the year of 2018, the cap for these continuing connected transactions is RMB4.0 million and the actual transaction amount for the year was RMB1.5 million.

For details of the above continuing connected transactions, please refer to the section headed "Continuing Connected Transactions" in the Prospectus.

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

(i) in the ordinary and usual course of business of the Group;

(ii) on normal or better commercial terms; and

(iii) in accordance with the agreements for such transactions, the terms of which are fair and reasonable, and are in the interest of the shareholders as a whole.

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

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

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

Save as disclosed in this annual report, during the Reporting Period, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

SANCTIONED BUSINESS ACTIVITIES

Update on voluntary self-disclosure to the Office of Foreign Assets Control

As disclosed in the section headed "Business — Business Activities in Countries subject to International Sanctions" in the Prospectus, during 2017, the Group received five U.S. dollar payments from third-party intermediaries with respect to goods sold to distributors and delivered directly to Iran and Syria which were processed in the U.S. financial system before receipt of product payment by the Group, and that appeared to be potential violations of the sanctions regulations imposed by the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") that are applicable to transactions with Iran and Syria, respectively. As advised by its international sanctions legal advisors, the Company submitted a voluntary self-disclosure ("**VSD**") to OFAC in light of the potential violations on March 28, 2018.

On December 17, 2018, the Company received a cautionary letter issued by OFAC ("**Cautionary Letter**"), which states that OFAC decided to address the matters raised in the VSD by issuing the Cautionary Letter to give us a cautionary reminder instead of pursuing a civil monetary penalty. The Cautionary Letter represents a final enforcement response to the above.

The Company's undertakings

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

CHARITY DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to HK$1.2 million.

MATERIAL LEGAL PROCEEDINGS

For the year ended December 31, 2018, 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.

According 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, and none of them shall be answerable for the acts, receipts, neglects or defaults of any other of them, or for joining in any receipt 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 the insufficiency or deficiency of any security upon which any moneys of the Company shall be placed out or invested, or for any other loss, misfortune or damage which may arise 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, dishonest, or recklessness. The Company may take out and pay the premium and other moneys for the maintenance of insurance, bonds and other instruments for the benefit either of the Company or the Directors (and/or other officers) or any of them to indemnify the Company and/or Directors (and/or other officers) named therein for this purpose against any loss, damage, liability and claim which they may suffer or sustain in connection with any breach by the Directors (and/or other officers) or any of them of their duties to the Company.

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in Note 41 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 practices adopted by our Company as well as the audited consolidated financial statements for the year ended December 31, 2018.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high level of corporate governance practices. Information about the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 48 to 61 in this annual report.

PUBLIC FLOAT

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

AUDITOR

PricewaterhouseCoopers has been appointed as auditor for the year ended December 31, 2018. PricewaterhouseCoopers has audited the accompanying financial statements which were prepared in accordance with the HKFRSs.

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

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

Hong Kong, February 25, 2019

The Board is pleased to present the corporate governance report of the Company during the period from the Listing Date to December 31, 2018.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high standard of corporate governance to safeguard the interests of its shareholders and enhance its value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own corporate governance code. Save as disclosed in this annual report, the Company has been in compliance with all applicable code provisions under the Corporate Governance Code during the period from the Listing Date to December 31, 2018. The Company will continue to review and monitor its corporate governance practices in order to ensure the compliance with the Corporate Governance Code.

BOARD OF DIRECTORS

RESPONSIBILITIES

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 the Board Committees responsibilities as set out in their respective terms of reference.

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

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

COMPOSITION OF THE BOARD OF DIRECTORS

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
Cao Xueyu (appointed on March 5, 2018)
Shi Futao

Non-executive Directors:

Che Hongzhi
Wang Lei
Chen Yansheng

Independent non-executive Directors:

Zhang Xuehuo (appointed on September 10, 2018)
Choi Tze Kit Sammy (appointed on September 10, 2018)
Wang Chuansheng (appointed on September 10, 2018)

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

During the period from the Listing Date to December 31, 2018, the Board has met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

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

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

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

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors would be provided with necessary induction and information to ensure that they have a proper understanding of the Company's operations and businesses as well as their 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 period of Corporate Governance Report, all current Directors have received relevant training on corporate governance and regulatory issues, and have provided their training records. In view of the above, the Company considers that all Directors have complied with Code Provision A.6.5 of the Corporate Governance Code.

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 update and provide 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 A.2.1 of the Corporate Governance Code, the roles of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual.

The positions of chairman of the Board and chief executive officer of the Company (the "**Chief Executive Officer**") are currently held by Mr. Che Hongzhi and Mr. Che Baozhen, respectively, and the two different positions are clearly defined by their respective functions. The chairman of the Board is responsible for providing strategic recommendations and advice in respect of the Group's development, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company for term of three years from October 9, 2018, subject to termination in accordance with the requirements of the service contract.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for term of three years commencing from October 9, 2018, subject to termination in accordance with the requirements of the service contract.

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

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

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

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of no less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiry has 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 during the period from the Listing Date to December 31, 2018.

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 FUNCTION

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

(a) review and monitor the Company's policies and practices in complying with legal and regulatory requirements;

(b) review and monitor the training and continuous professional development of the Directors and senior management;

(c) develop, review and monitor the code of conduct and compliance manual applicable to employees and the Directors;

(d) develop and review the Company's corporate governance and practices, make recommendations and report on related issues to the Board;

(e) review the Company's compliance with the corporate governance and disclosures in the Corporate Governance Report; and

(f) review and monitor the Company's compliance with its whistleblowing policy.

THE BOARD COMMITTEE

AUDIT COMMITTEE

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

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

1. make recommendations to the Board on the appointment, re-appointment and/or removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and consider any questions of resignation or dismissal of that auditor;

2. monitor the integrity of financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

3. oversee the Company's risk management, financial reporting system and internal control procedures;

4. oversee the Company's corporate governance functions, including review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, and the training and continuous professional development of Directors and senior management; and

5. oversee the Company's continuing connected transactions, including holding meetings every six months to review the reports on continuing connected transactions.

The main work of the Audit Committee in 2018 was as follows:

- Amend the terms of reference of the Audit Committee;
- Review the report on the 2018 audit plan;
- Discuss tax compliance matters; and
- Discuss the Company's internal control and risk management systems.

The Audit Committee has reviewed the audited financial statements for the year ended December 31, 2018.

NOMINATION AND REMUNERATION COMMITTEE

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

The terms of reference of the Nomination and Remuneration Committee are published on the Hong Kong 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. be responsible, as the Board shall direct, for making 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;

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 practice;

10. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct in order to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate;

11. ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration;

12. review the policy of the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and associated companies, the present subsidiaries and associated companies of the Company or the businesses operated by its present subsidiaries and associated companies or (as the case may be) its predecessor, on expense reimbursements for the Directors and senior management; and

13. assess the independence of independent non-executive Directors.

The Nomination and Remuneration Committee assesses the candidate or incumbent on criteria such as credibility, success and experience in the tire manufacturing industry, time available to be invested and benefits of sectors represented by the candidate and the diversity the candidate 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 2018 was as follows:

- Formulate and review the nomination policy.

REMUNERATION OF DIRECTORS

The Company has made full disclosure of remunerations of Directors by name, amount and type in Note 10 to the financial statements.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of senior management of the Company (whose biographies are set out on pages 24 to 28 of this annual report) for the year ended December 31, 2018 falls under the following bands:

Band of remuneration	
Within HK$500,000 (approximately RMB428,028)	—
HK$500,001-HK$1,000,000 (approximately RMB428,029-RMB856,055)	5
HK$1,000,001-HK$1,500,000 (approximately RMB856,056-RMB1,284,083)	2

BOARD DIVERSITY POLICY

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

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

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

DEVELOPMENT STRATEGY AND RISK MANAGEMENT COMMITTEE

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

The terms of reference of the Development Strategy and Risk Management Committee are published on the Hong Kong 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 general objectives and basic policies of compliance management and risk management;

9. determine strategic structures and resources for the risk management of the Company, and ensure that they are compatible with the internal risk management policy of the Company;

10. review and make recommendations on the institutional set up and duties in relation to compliance management and risk management; oversee the Company's risk management and internal control systems on an ongoing basis, and ensure that a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries has been conducted at least annually. The review shall cover all material controls, including financial, operational and compliance controls, and shall, in particular, include:

    i. the changes, since last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;

    ii. the scope and quality of management's ongoing monitoring of risks and the internal control systems, and its internal audit function;

    iii. the extent and frequency of communication of monitoring results to the Board (or the special committees under it);

iv. significant control failures or weaknesses that have been identified during the period, and the extent to which they have resulted in unforeseen outcomes or contingencies;

v. the effectiveness of the Company's procedures on financial reporting and compliance with the Listing Rules;

11. review and make recommendations on the institutional set up and duties in relation to compliance management and risk management, and ensure the adequacy resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;

12. evaluate and advise on risks relating to major decisions to be considered and approved at the Board and the solutions to such major tasks;

13. formulate the limits of major risks;

14. supervise, examine and make recommendations to the Board on relevant risk management policies;

15. review and advise on compliance reports and risk evaluation reports to be reviewed by the Board; and

16. 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 2018 was as follows:

- Research on the Company's development strategy;

- Continuously supervise the Company's risk management and internal control systems, and provide advice on the Company's compliance management; and

- Advice on the Company's compliance management and risk management policies.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

Since the shares of the Company were only listed on October 9, 2018, during the period from the Listing Date to December 31, 2018, the Company held two Board meetings, one Audit Committee meeting and one Nomination and Remuneration Committee meeting.

The attendance record of each Director at the Board and Board Committee meetings and the AGM of the Company held during the period from the Listing Date to December 31, 2018 is set out in the table below:

Name of Director	Board	Audit Committee	Nomination and Remuneration Committee	Development Strategy and Risk Management Committee	AGM
Mr. Che Baozhen	2/2		1/1		0/0
Ms. Cao Xueyu	2/2				0/0
Mr. Shi Futao	2/2				0/0
Mr. Che Hongzhi	2/2			0/0	0/0
Mr. Wang Lei	2/2				0/0
Mr. Chen Yansheng	2/2				0/0
Mr. Zhang Xuehuo	2/2	0/1	1/1	0/0	0/0
Mr. Choi Tze Kit Sammy	2/2	1/1	1/1		0/0
Mr. Wang Chuansheng	2/2	1/1		0/0	0/0

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. Meeting will also be arranged between the chairman and the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2018 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 auditors regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 62 to 66 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 overseeing the financial records, internal control procedures and risk management systems. The Development Strategy and Risk Management Committee is authorized by the Board to oversee the sanctions risk exposure to the Group and implementation of relevant internal control systems 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 Group relied upon an independent consultant firm to review the functions. The recommendations submitted by such consultant have been accepted by the Group and implemented in stages, to further enhance the policies, procedures and practices of its internal control and risk management. The risk management procedure of the Group clearly specifies the management duties, authorization and approval of each sides in respect of the major risk identification and management, and develops clear written policy for significant risk management process and circulate it to all managements and staffs. The Group has adopted a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

In order to effectively reduce unnecessary financial risks and operational risks, thus ensure the realization of corporate business objectives, the Group has set up a relatively independent internal control audit department to establish and improve the internal control system. It also inspected and evaluated the internal control and risk management of the Group from an objective and independent perspective in order to provide reasonable guarantee for compliance with laws and regulations and to improve the efficiency of the operation.

The Directors and senior management of the Group receive training related to continuing disclosure obligation of listed company regularly. The Group also engaged external legal consultant, compliance 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 measure carried by management.

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

AUDITOR'S REMUNERATION

The auditor's approximate remuneration in respect of the audit and non-audit services provided to the Company for the year ended December 31, 2018 is as follows:

Type of services	Amount (RMB)
Audit services	2,200,000
Non-audit services (tax consulting)	116,500
Total	2,316,500

COMPANY SECRETARY

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Lam Yuk Ling, assistant manager of TMF Hong Kong Limited (a company secretarial service provider), as the company secretary of the Company. Mr. Shi Futao and Ms. Cao Xueyu are her primary contact persons in the Company.

For the year ended December 31, 2018, Ms. Lam has undertaken no 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.

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

To promote effective communication and to build an inter-relationship and communication channel between the Company and the Shareholders, the Company adopts a shareholders' communication policy and maintains a website at www.prinxchengshan.com, where the up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

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

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Hong Kong 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 website of the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board may send their enquiries to the Investor Relations of the Company at its headquarters through email at investor@prinxchengshan.com.

AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

The Memorandum of Association and the Articles of Association of the Company have been amended and restated, with effect from the Listing Date.

pwc 羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Prinx Chengshan (Cayman) Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 152, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 2018, 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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 recognition of warranty provisions.

Key Audit Matter	How our audit addressed the Key Audit Matter
The recognition of warranty provisions Refer to note 4(e) (Critical accounting estimates and judgments), note 9 (Expenses by nature) and note 33 (Provision for warranties) to the consolidated financial statements. As at 31 December 2018, the Group had warranty provisions amounted to RMB74 million. The provision for product warranties granted by the Group to customers are recognised based on estimated costs of warranty claims on products sold. The estimation of the warranty provisions includes a number of variable factors and assumptions including: sales quantity, the percentage of the expected substitution occurred, future product costs. We focused on this area because of inherent level of management judgment required in calculating the amount of provisions needed as a result of the complex and subjective elements around these variable factors and assumptions.	We understood, evaluated and tested the key management's controls over the estimation of the warranty provisions. We compared the current year actual claims results with the year 2018 figures included in the prior year forecast to consider whether there is a bias in the management's estimation. We agreed the financial information of historical claims to the after sales service system. Also we tested the historical claims input data of the after sales service system by checking to the supporting evidence on a sample basis. We tested management's warranty provision model, including: • We checked the sales contracts on a sample basis to evaluate whether the key assumptions in the warranty provision model is in accordance with the contract terms; • We checked the Group's sales quantity and amounts for the year ended 31 December 2018, and compared with related financial information and other supporting evidence on a sample basis; • We evaluated the management's assumptions on future product costs by comparing the trend of historical product costs, and taking into consideration of the latest market conditions; • We tested the mathematical accuracy of calculation based on management's warranty provision model; • We interviewed and confirmed with the management whether there are major product defects, which may have significant impact on the warranty provisions recognised, occurred during the year or the subsequent period and corroborating management's consideration by obtaining other supporting evidence. Based on the work performed, we considered that the warranty provisions were supported by the evidence we obtained.

Other Information

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 February 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	**5,206,087**	4,840,396
Cost of sales	9	**(4,203,034)**	(4,071,799)
Gross profit		**1,003,053**	768,597
Selling and distribution expenses	9	**(301,069)**	(320,952)
Administrative expenses	9	**(116,229)**	(82,085)
Research and development costs	9	**(106,875)**	(85,246)
Other income	7	**39,813**	21,458
Other gains/(losses) — net	8	**47,682**	(25,440)
Operating profit		**566,375**	276,332
Finance income	11	**8,192**	3,931
Finance costs	11	**(12,787)**	(13,518)
Finance costs — net	11	**(4,595)**	(9,587)
Losses from fair value change of convertible redeemable preferred shares	12	**—**	(56,727)
Profit before income tax		**561,780**	210,018
Income tax expense	13(a)	**(83,180)**	(36,446)
Profit for the year		**478,600**	173,572
Profit attributable to:			
— Shareholders of the Company		**478,600**	173,698
— Non-controlling interests		**—**	(126)
		478,600	173,572
Earnings per share for profit attributable to shareholders of the Company for the year			
— Basic and diluted (RMB)	14	**0.90**	0.40

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit for the year		**478,600**	173,572
Other comprehensive (loss)/income:			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences		**(10,249)**	21,280
Other comprehensive (loss)/income for the year, net of tax		**(10,249)**	21,280
Total comprehensive income for the year		**468,351**	194,852
Attributable to:			
— Shareholders of the Company		**468,351**	194,978
— Non-controlling interests		**—**	(126)
Total comprehensive income for the year		**468,351**	194,852

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

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Land use rights	17	**103,932**	107,766
Property, plant and equipment	18	**1,372,590**	1,133,826
Intangible assets	19	**58,142**	65,911
Investment in an associate		**2,200**	—
Prepayments and other receivables	25	**12,979**	19,395
		1,549,843	1,326,898
Current assets			
Inventories	22	**671,579**	687,203
Trade receivables	24	**933,541**	971,272
Prepayments, other receivables and other current assets	25	**74,789**	32,948
Available-for-sale financial assets	21	**—**	130,000
Financial assets at fair value through profit or loss	23	**497,608**	—
Amounts due from related parties	39(b)	**59,739**	19,369
Cash and cash equivalents	26	**1,385,348**	687,998
Restricted cash	26	**83,973**	120,299
		3,706,577	2,649,089
Total assets		**5,256,420**	3,975,987

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	27	**199**	133
Share premium	27	**2,171,942**	1,112,569
Reserves	28	**873,942**	488,673
		3,046,083	1,601,375
Non-controlling interests		**(126)**	(126)
Total equity		**3,045,957**	1,601,249
Liabilities			
Non-current liabilities			
Financial liabilities at fair value through profit or loss	30	**—**	374,619
Deferred income	34	**39,946**	15,784
Deferred tax liabilities	35	**12,417**	10,554
		52,363	400,957
Current liabilities			
Trade payables	31	**1,113,699**	907,106
Other payables and accruals	32	**508,893**	379,707
Contract liabilities	5	**59,512**	—
Provision for warranties	33	**73,873**	87,405
Amounts due to related parties	39(b)	**28,800**	249,266
Current income tax liabilities		**23,323**	44,222
Bank borrowings	29	**350,000**	306,075
		2,158,100	1,973,781
Total liabilities		**2,210,463**	2,374,738
Total equity and liabilities		**5,256,420**	3,975,987

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

The consolidated financial statements on pages 67 to 152 were approved by the Board of Directors on 25 February 2019 and were signed on its behalf.

Che Baozhen
Director

Shi Futao
Director

	Note	Equity attributable to shareholders of the Company					
		Share capital *RMB'000* *(Note 27)*	Share premium *RMB'000* *(Note 27)*	Reserves *RMB'000* *(Note 28)*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2017		133	1,202,809	293,695	1,496,637	—	1,496,637
Comprehensive income							
Profit for the year		—	—	173,698	173,698	(126)	173,572
Other comprehensive income							
Currency translation difference		—	—	21,280	21,280	—	21,280
Total other comprehensive income, net of tax		—	—	21,280	21,280	—	21,280
Total comprehensive income		—	—	194,978	194,978	(126)	194,852
Transactions with shareholders							
Cash dividends	15	—	(90,240)	—	(90,240)	—	(90,240)
Total transactions with shareholders		—	(90,240)	—	(90,240)	—	(90,240)
Balance at 31 December 2017		133	1,112,569	488,673	1,601,375	(126)	1,601,249

For the year ended 31 December 2018

	Note	Equity attributable to shareholders of the Company				Non-controlling interests RMB'000	Total equity RMB'000
		Share capital *RMB'000* *(Note 27)*	Share premium *RMB'000* *(Note 27)*	Reserves *RMB'000* *(Note 28)*	Total *RMB'000*		
Balance at 1 January 2018		133	1,112,569	488,673	1,601,375	(126)	1,601,249
Comprehensive income							
Profit for the year		—	—	478,600	478,600	—	478,600
Other comprehensive income							
Currency translation difference		—	—	(10,249)	(10,249)	—	(10,249)
Total other comprehensive income, net of tax		—	—	(10,249)	(10,249)	—	(10,249)
Total comprehensive income		—	—	468,351	468,351	—	468,351
Transactions with shareholders							
Conversion of preferred shares	27	19	374,600	—	374,619	—	374,619
Issue of ordinary shares upon initial public offering	27	47	684,773	—	684,820	—	684,820
Cash dividends	15	—	—	(83,082)	(83,082)	—	(83,082)
Total transactions with shareholders		66	1,059,373	(83,082)	976,357	—	976,357
Balance at 31 December 2018		199	2,171,942	873,942	3,046,083	(126)	3,045,957

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

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	**940,801**	260,734
Interest paid		**(20,798)**	(15,167)
Income tax paid		**(102,216)**	(65,493)
Net cash generated from operating activities		**817,787**	180,074
Cash flows from investing activities			
Purchases of property, plant and equipment		**(297,557)**	(131,062)
Investment in an associate		**(2,200)**	—
Proceeds from disposal of property, plant and equipment	36(b)	**83**	462
Purchase of land use rights		**—**	(10,381)
Purchase of intangible assets		**(3,905)**	(706)
Loans granted to a third party		**(4,000)**	—
Repayment of loans granted to a related party		**—**	79,999
Purchase of available-for-sale financial assets	21	**—**	(1,225,081)
Proceeds from disposal of available-for-sale financial assets	21	**—**	1,208,697
Purchase of financial assets at fair value through profit or loss	23	**(4,623,888)**	(353,352)
Proceeds from disposal of financial assets at fair value through profit or loss	23	**4,271,604**	353,726
Acquisition of a subsidiary, net of cash and cash equivalents	38	**27,042**	—
Disposal of a subsidiary, net of cash and cash equivalents	38	**(53,759)**	—
Interest received		**7,288**	3,931
Net cash used in investing activities		**(679,292)**	(73,767)

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds from issue of ordinary shares upon initial public offering		**702,677**	—
Proceeds from borrowings		**350,000**	340,943
Repayments of borrowings		**(309,863)**	(32,972)
Decrease/(increase) in restricted cash pledged as security for bank borrowings		**85,342**	(85,342)
Repayments of loans from related parties		**(102,792)**	(318,569)
Payment of listing expenses		**(40,830)**	(1,275)
Amounts due to non-controlling interests		**23,654**	—
Cash dividends paid	15	**(165,268)**	—
Net cash generated from/(used in) financing activities		**542,920**	(97,215)
Net increase in cash and cash equivalents		**681,415**	9,092
Cash and cash equivalents at the beginning of year	26	**687,998**	709,914
Exchange gain/(loss) on cash and cash equivalents		**15,935**	(31,008)
Cash and cash equivalents at the end of year	26	**1,385,348**	687,998

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

1 General information, reorganisation and basis presentation

1.1 General information

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

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

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

These consolidated financial statements are presented in thousands of Renminbi (“RMB’000”) and were approved for issue by the board of directors on 25 February 2019.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

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

(ii) Historical cost convention

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions — Amendments to HKFRS 2
- Annual Improvements 2014–2016 cycle
- Transfers to Investment Property — Amendments to HKAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies following the adoption of HKFRS 9 and HKFRS 15. For details, please refer to Note 2.2. The other amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations that are relevant to the Group but not yet effective for the financial year beginning at 1 January 2018 and have not been early adopted by the Group are as follows:

Standards	Key requirements	Effective for annual periods beginning on or after
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HKAS 19	'Employee benefits' on plan amendment, curtailment or settlement	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKFRS	Annual Improvement to HKFRS 2015–2017 Cycle	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation.

IFRS 16, Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the lessee's balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately RMB18.5 million, among which less than one year is RMB9.1 million and more than one year and less than five years is RMB9.4 million. HKFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortization and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognised in the statement of financial position as right of use assets and lease liabilities.

The Group expects to the recognise right-of-use assets and lease liabilities for the non-cancellable operating lease commitments which are more than one year. The Group expects no material impact to the consolidated statements of profit or loss.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on any foreseeable future transactions.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") on the Group's financial information and the new accounting policies as disclosed in Note 2.10 and Note 2.24 that have been applied from 1 January 2018, where they are different to those applied in prior periods.

Certain of the Group's accounting policies have been changed to comply with the adoption of HKFRS 9 and HKFRS 15. HKFRS 9 replaces the provisions of HKAS 39 Financial Instruments ("HKAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments — Disclosures". HKFRS 15 replaces the provisions of HKAS 18 "Revenue" ("HKAS 18") and HKAS 11 "Construction Contracts" ("HKAS 11") that relate to the recognition, classification and measurement of revenue and costs.

(i) HKFRS 9 — Impact on the financial information of the Group

As a result of the changes in the Group's accounting policies, as explained below, HKFRS 9 was generally adopted without restating any comparative information. The adoption of HKFRS 9 in the current period result in the adjustment for the beginning of financial position at 1 January 2018 as the Group has adopted the accounting policies on financial instruments with effect from 1 January 2018.

(a) Classification and measurement of financial instruments

At 1 January 2018	**Available-for-sale financial assets** *RMB'000*	**Financial assets at fair value through profit or loss** *RMB'000*
Opening balance — HKAS 39	130,000	—
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	(130,000)	130,000
Opening balance — HKFRS 9	—	130,000

There is no effect resulting from this reclassification on the Group's equity as both HKAS 39 and HKFRS 9 require any changes in the fair value of the non-trading unlisted equity securities to be recognised as other comprehensive income/loss in equity.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(i) HKFRS 9 — Impact on the financial information of the Group (continued)

(a) Classification and measurement of financial instruments (continued)

There is no impact on the Group's accounting for financial liabilities. The Group accounts for the convertible redeemable preferred shares as financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Group's financial liabilities previously carried at amortised costs remained to be measured at amortised costs under HKFRS 9.

(ii) HKFRS 15 — Impact on the financial information of the Group

As a result of the changes in the Group's accounting policies, as explained below, Except for the reclassification of the contract liabilities from deferred revenue, HKFRS 15 was generally adopted without restating any other comparative information. The adoption of HKFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018.

HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under HKFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition on sale of goods is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

2.3 Subsidiaries

2.3.1 Consolidation

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

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) Business combination (continued)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39/HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of profit or loss.

Intra-group 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. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is 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. It means the 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.

2.3.2 Separate financial statements

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

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

2.4 Segment reporting

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

2 Summary of significant accounting policies (continued)

2.5 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 consolidated financial statements are presented in RMB, which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

(c) Group companies

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

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

2.6 Land use rights

All land in the Mainland China is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The upfront prepayments made for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised in the consolidated statements of profit or loss on a straight-line basis over the period of the rights. The land use rights are stated at historical cost less accumulated amortisation and impairment losses.

2 Summary of significant accounting policies (continued)

2.7 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 financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.8 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3.1(a) and Note 2.9. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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.

2 Summary of significant accounting policies (continued)

2.8 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 5–10 years based on the expected use in future operating plan.

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of 5 years based on the contract terms.

(d) Computer software

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

(e) Unpatented and patented technology

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

2.9 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.

2 Summary of significant accounting policies (continued)

2.10 Financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortized cost.

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

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

See Note 20a for details of each type of financial asset.

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

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

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(iii) Measurement (continued)

Debt instruments

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss. Interest income from these financial assets is included in finance income or other income using the effective interest method.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains/(losses) — net. Interest income from these financial assets is included in finance income or other income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- Fair value through profit or loss ("FVPL"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within other losses/gains, 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 recognized in profit or loss as other income when the Group's right to receive payments is established.

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

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

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

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. The Group has elected to designate the derivative financial instruments as financial assets at fair value through profit or loss.

(b) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. The Group's receivables comprise "trade and other receivables", "cash at banks" and "amounts due from related parties" in the consolidated statements of financial position (Notes 24, 25, 26 and 39(b)).

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(v) Accounting policies applied until 31 December 2017 (continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Group's available-for-sale financial assets included wealth management products, which are non-derivatives.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statements of profit or loss within 'Other gains/(losses) — net' in the period in which they arise. Investment income from financial assets at fair value through profit or loss and available for sale is recognised in the consolidated statements of profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statements of profit or loss as 'Other gains/(losses) — net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statements of profit or loss as part of other income.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(v) Accounting policies applied until 31 December 2017 (continued)

(c) Available-for-sale financial assets (continued)

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.11 Offsetting financial instruments

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

2.12 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.

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.10 for a description of the Group’s impairment policies.

2 Summary of significant accounting policies (continued)

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (Note 2.19).

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

2.16 Trade and other payables

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

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

2.17 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 statements of profit or loss over the period of the borrowings using the effective interest method.

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

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

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

2 Summary of significant accounting policies (continued)

2.18 Borrowing costs

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

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

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

2.19 Convertible redeemable preferred shares

Convertible redeemable preferred shares shall be redeemed at the option of shareholders when future events occur, the instrument also shall be converted to ordinary shares of the Company at any time, in the Company's initial public offering, or converted into ordinary shares at the option of the preferred shareholders.

The Group recognised the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss, any direct transaction cost is recognised as financial cost in the consolidated statements of profit or loss.

After initial recognition, convertible redeemable preferred shares are valued at fair value, while fair value changes are recognised in losses from fair value change of convertible redeemable preferred shares.

Convertible redeemable preferred shares are classified as non-current liabilities unless the Group has to settle the liabilities within 12 months after the end of the reporting period.

The dividends on convertible redeemable preference shares are recognised in the consolidated statements of profit or loss as interest expense.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements 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 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies (continued)

2.20 Current and deferred income tax (continued)

(b) Deferred income tax

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

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

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

(c) Offsetting

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

2.21 Employee benefits

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

2 Summary of significant accounting policies (continued)

2.21 Employee benefits (continued)

(b) Other employee benefits

In addition to pension obligation, all Mainland China employees of the Group participate in various employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees (or on other basis), subject to a certain ceiling, and are paid to the labour and social welfare authorities.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of profit or loss as incurred.

2.22 Provision

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

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

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

2.23 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 statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2 Summary of significant accounting policies (continued)

2.24 Revenue recognition

Accounting policies applied from 1 January 2018

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

Sales of products

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

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.

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 15, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Revenue is measured at the fair value of the consideration received and receivable. Amounts disclosed as revenue are 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 the Group's activity as described below. The Group bases its estimates of return 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 sales of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

2 Summary of significant accounting policies (continued)

2.25 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 (2017 — receivables and available-for-sale financial assets) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income for investment purpose.

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

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

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of profit or loss on a straight-line basis over the period of the lease.

2.27 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.

2 Summary of significant accounting policies (continued)

2.27 Research and development costs (continued)

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

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

2.28 Dividend distribution

Dividend distribution to the Company's shareholder 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 appropriates.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are dominated in a currency that is not the Group entities' functional currency. The Group mainly operates in the PRC, and is therefore exposed to foreign currency risks arising from various currency exposures, mainly with respect to USD due to certain financial assets and liabilities that denominated in USD.

Exchange rate fluctuations and market trends have always been the concern of the Group. The Group and the Company may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the year ended 31 December 2018 and 2017, the Group entered into currency swap contracts to mitigate the foreign exchange risk.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2017 and 2018, if USD had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax profit for each year/period would have changed mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalent, trade receivables, trade payables and bank borrowings in RMB functional currency subsidiaries. Details of the changes are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Year ended:		
Post-tax profit (decrease)/increase		
— Weakened 5% against RMB	**(30,908)**	(30,748)
— Strengthened 5% against RMB	**30,908**	30,748

As at 31 December 2017 and 2018, 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	
	2018	2017
	RMB'000	*RMB'000*
Year ended:		
Other comprehensive income (decrease)/increase		
— Weakened 5% against RMB	**(38,410)**	16,610
— Strengthened 5% against RMB	**38,410**	(16,610)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings. Bank borrowings obtained at floating rates expose the Group to cash flow interest rate risk, and if at fixed rates expose the Group to fair value interest-rate risk. The interest rates and bank borrowings are disclosed in Note 29.

As at 31 December 2018, if interest rates on bank borrowings, which had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been approximately RMB0.25 million lower/higher mainly as a result of higher/lower interest expense on bank borrowings with floating rate.

As at 31 December 2017, the Group has no bank borrowings with floating rate.

(b) Credit risk

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

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.

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;

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

- 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) Amounts due from related parties

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Amounts due from related parties (continued)

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

As at 31 December 2018, the internal credit rating of amounts due from related parties were performing. The Group has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected losses method. Thus no loss allowance for amounts due from related parties was recognised.

(ii) Trade and other 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.

As at 31 December 2018, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance for other receivables was recognised.

As at 31 December 2018, the loss allowance for trade receivables was determined as follows. The expected credit losses below also incorporated forward looking information.

	Current	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
31 December 2018						
Expected loss rate	0.3%	1%	20%	50%	100%	—
Gross carrying amount *(RMB'000)*	843,042	87,585	4,784	5,408	3,364	944,183
Loss allowance *(RMB'000)*	(2,741)	(876)	(957)	(2,704)	(3,364)	(10,642)

In the prior year, for trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations. For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

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

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Total *RMB'000*
At 31 December 2018			
Bank borrowings	350,000	—	350,000
Interest payables for bank borrowings	12,500	—	12,500
Amounts due to related parties	28,800	—	28,800
Trade payables	1,113,699	—	1,113,699
Other payables	356,325	—	356,325
	1,861,324	—	1,861,324
At 31 December 2017			
Bank borrowings	306,075	—	306,075
Financial liabilities at fair value through profit or loss	—	374,619	374,619
Interest payables for bank borrowings	7,318	—	7,318
Amounts due to related parties	249,266	—	249,266
Trade payables	907,106	—	907,106
Other payables	187,624	—	187,624
	1,657,389	374,619	2,032,008

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" as shown in the consolidated statements of financial positions) less cash and cash equivalents and restricted cash. Total capital is calculated as equity plus convertible redeemable preferred shares on an as-if converted basis plus net surplus/debt, which is total equity and financial liabilities at fair value through profit or loss as shown in the consolidated statements of financial position and net surplus/debt.

The gearing ratios as at 31 December 2017 and 2018 were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Bank borrowings *(Note 29)*	**350,000**	306,075
Less: Cash and cash equivalents *(Note 26)*	**(1,385,348)**	(687,998)
Restricted cash *(Note 26)*	**(83,973)**	(120,299)
Net surplus	**(1,119,321)**	(502,222)
Financial liabilities at fair value through profit or loss	**—**	374,619
Total equity	**3,045,957**	1,601,249
Total capital	**1,926,636**	1,473,646
Gearing ratio	**Not meaningful**	Not meaningful

3 Financial risk management (continued)

3.3 Fair value estimation

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

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2017 and 2018.

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products (a)	—	—	468,526	468,526
— Listed equity securities	29,082	—	—	29,082
	29,082	—	468,526	497,608
As at 31 December 2017				
Assets				
Available-for-sale financial assets wealth management products (a)	—	—	130,000	130,000
Liabilities				
Financial liabilities at fair value through profit or loss (a)	—	—	374,619	374,619

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(a) Financial instruments in level 3

See Note 21, Note 23 and Note 30 for disclosures of the changes in level 3 instruments for the year ended 31 December 2017 and 2018.

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

	Fair value at 31 December 2018 *RMB'000*	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	468,526	Expected yield rate	2.0%–4.7% (3.4%)	A change in the yield rate by 100 basis points would increase/decrease the fair value by approximately RMB4,489,582.

	Fair value at 31 December 2017 *RMB'000*	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	130,000	Expected yield rate	4.8%	A change in the yield rate by 100 basis points would increase/decrease the fair value by approximately RMB1,240,000.
Convertible redeemable preferred shares	374,619	Discount rate	15%	A change in the discount rate by 50 basis points would increase/decrease the fair value by approximately RMB29.9 million/ RMB27.0 million.
		Sales growth rate	9.2%–16.5% (12.9%)	A change in the sales growth rate by 100 basis points would increase/decrease the fair value by approximately RMB12.1 million.

4 Critical accounting estimates and judgments

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

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

(a) Useful lives of property, plant and equipment

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

(b) Income taxes and deferred tax assets/liabilities

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

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

(c) Provision for impairment of trade receivables

For trade receivables (excluding non-financial assets), the Group applies the simplified approach to provide for expected credit losses as prescribed by HKFRS 9, which requires the use of the lifetime expected loss allowance for all trade receivables (excluding non-financial assets). The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting 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.

4 Critical accounting estimates and judgments (continued)

(d) Net realisable value of inventories

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

(e) Warranty claims provision

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

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

5 Segment information

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

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

5 Segment information (continued)

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

	Year ended 31 December	
	2018 Revenue *RMB'000*	2017 Revenue *RMB'000*
Mainland China	**3,036,444**	2,846,566
Americas	**803,560**	855,647
Asia (excluding Mainland China)	**524,550**	387,419
Africa	**400,539**	285,197
Middle East	**198,838**	266,955
Other countries	**242,156**	198,612
	5,206,087	4,840,396

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

	As at 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Mainland China	**1,475,983**	1,240,933
Europe	**472**	625
Americas	**38**	—
Hong Kong	**29**	34
	1,476,522	1,241,592

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December	
	2018 Revenue *RMB'000*	2017 Revenue *RMB'000*
Customer A	**N/A**	715,863

Customer A did not contribute 10% or more to the Group's revenue for the year ended 31 December 2018.

5 Segment information (continued)

Revenue recognised in relation to contract liabilities

	As at 31 December 2018 RMB'000
Contract liabilities	**59,512**

(i) Significant change in contract liabilities

The Group receives payments from customers based on billing schedule as established in contracts. Payments are usually received in advance under the contracts which are mainly from sales of tire products.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised for the year ended 31 December 2018 relates to carried-forward contract liabilities.

	Year ended 31 December 2018 RMB'000
Revenue recognised that was included in the contract liabilities balance at 1 January 2018	
Sales of tire products	**73,415**

(iii) Unsatisfied contracts related to sales of tire products

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

6 Revenue

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue from customer and recognised at point in time		
Sales of tire products:		
— All steel radial tires	**3,968,945**	3,692,706
— Semi-steel radial tires	**1,093,195**	940,145
— Bias tires	**143,947**	207,545
	5,206,087	4,840,396

7 Other income

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of scraps	**22,230**	17,884
Government grants	**17,583**	3,574
	39,813	21,458

8 Other gains/(losses) — net

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gains on disposal of available-for-sale financial assets	**—**	2,996
Gains/(losses) on disposal of financial assets at fair value through profit or loss		
— Wealth management products	**15,841**	—
— Currency swaps	**(1,159)**	374
Gains from fair value change of financial assets at fair value through profit or loss	**703**	—
Losses on disposal of property, plant and equipment *(Note 36(b))*	**(3,270)**	(766)
Net other foreign exchange gains/(losses)	**33,802**	(27,326)
Others	**1,765**	(718)
	47,682	(25,440)

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	
	2018	2017
	RMB'000	*RMB'000*
Raw materials and consumables used	**3,652,901**	3,585,875
Change in inventories of finished goods and work in progress	**(6,776)**	(20,178)
Wages and salaries, social welfare and benefits, including director's emoluments *(Note 10)*	**429,716**	356,148
Depreciation *(Note 18)*	**180,122**	185,329
Amortisation *(Note 17, 19)*	**15,508**	15,984
Transportation cost	**127,057**	128,966
Maintenance and repair	**36,566**	29,809
Travel and office expenses	**35,529**	28,349
Provisions for warranty claims *(Note 33)*	**34,003**	75,832
Other levies	**31,612**	29,006
Export expenses	**30,272**	25,461
Storage expenses	**19,441**	19,182
Rental and estate expenses	**14,952**	13,568
Service fees and commissions	**11,888**	9,146
Conference expenses	**6,831**	954
Bank charge	**3,018**	1,604
Auditors' remuneration		
— Audit services	**2,200**	794
— Non-audit services	**117**	—
Provision for write-down of inventories *(Note 22)*	**1,380**	2,383
Provision for impairment of trade receivables *(Note 24)*	**530**	720
Listing expenses	**26,723**	4,848
Other expenses	**73,617**	66,302
	4,727,207	4,560,082

10 Employee benefit expenses, including director's emoluments

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**356,763**	296,844
Pension, housing fund, medical insurance and other welfare benefits	**72,953**	59,304
Total employee benefit expenses	**429,716**	356,148

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

(a) Pension costs — defined contribution plans

The employees of the Group's subsidiaries established in the Mainland China participate in defined contribution retirement benefit 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.

(b) Benefits and interests of directors

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

For the year ended 31 December 2018

Name of Director	Fees *RMB'000*	Salaries and bonus *RMB'000*	Pension, housing fund, medical insurance and other welfare benefits *RMB'000*	Total *RMB'000*
Executive Directors				
Che Baozhen	313	1,772	81	2,166
Shi Futao	181	1,336	87	1,604
Cao Xueyu	185	—	8	193
Non-executive Director				
Che Hongzhi	241	—	12	253
Independent non-executive Directors				
Zhang Xuehuo	43	—	—	43
Choi Tze Kit, Sammy	52	—	—	52
Wang Chuansheng	36	—	—	36
	1,051	3,108	188	4,347

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

(b) Benefits and interests of directors (continued)

For the year ended 31 December 2017

Name of Director	Fees *RMB'000*	Salaries and bonus *RMB'000*	Pension, housing fund, medical insurance and other welfare benefits *RMB'000*	Total *RMB'000*
Executive Directors				
Che Hongzhi	59	—	—	59
Che Baozhen	300	1,246	80	1,626
Shi Futao	173	1,075	79	1,327
Xiao Qian	81	367	16	464
	613	2,688	175	3,476

(c) Directors' retirement benefits

There were no retirement benefits paid to any director for the year ended 31 December 2018 (2017: nil).

(d) Directors' termination benefits

There were no termination benefits paid to any director for the year ended 31 December 2018 (2017: nil).

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

For the year ended 31 December 2018, the Company provided no consideration to third parties for making available director's services (2017: nil).

(f) 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 and in favour of the directors as at 31 December 2018, or at any time for the year ended 31 December 2018 (2017: nil).

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

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

Save as disclosed in Note 39, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2018, or at any time for the year ended 31 December 2018 (2017: Nil).

Zhang Xuehuo, Choi Tze Kit, Sammy and Wang Chuansheng were appointed as the Company's independent non-executive directors on 10 September 2018.

(h) Five highest paid individuals

The five highest paid employees of the Group for the year ended 31 December 2018 include 2 (2017: 2) directors, details of whose emoluments are reflected in the analysis shown in Note10(b). Details of the total emoluments paid to the remaining 3 (2017: 3) highest paid employees for the year were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**3,283**	2,034
Pension, housing fund, medical insurance and other welfare benefits	**106**	90
Total employee benefit expenses	**3,389**	2,124

The emoluments fell within the following bands:

	Year ended 31 December	
	2018	2017
Emolument bands		
Within HKD1,000,000 (approximately RMB856,055)	**—**	3
HKD1,000,001 to HKD1,500,000 (approximately RMB856,056–RMB1,284,083)	**2**	—
HKD1,500,001 to HKD2,000,000 (approximately RMB1,284,084–RMB1,712,110)	**1**	—
	3	3

11 Finance costs — net

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance costs:		
— Interest expense on bank borrowings	**(8,999)**	(2,310)
— Foreign exchange (losses)/gains on financing activities	**(3,788)**	1,896
— Interest expense on convertible redeemable preferred shares	**—**	(13,104)
	(12,787)	(13,518)
Finance income:		
— Interest income derived from bank deposits	**8,192**	3,931
Finance costs — net	**(4,595)**	(9,587)

12 Losses from fair value change of convertible redeemable preferred shares

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Fair value change of convertible redeemable preferred shares *(Note 30)*	**—**	(56,727)

13 Taxation

(a) Income tax expense

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax	**66,307**	28,922
— Hong Kong and overseas profits tax	**3,024**	8,405
— PRC withholding tax	**11,986**	3,118
Deferred income tax *(Note 35)*	**1,863**	(3,999)
Income tax expense	**83,180**	36,446

(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.

(ii) Hong Kong profits tax

The Company's subsidiaries, Prinx Chengshan (Hong Kong) Tire Limited (formerly known as Prinx Investment Limited) and Prinx (Hong Kong) Investment Limited, are subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2018 (2017: 16.5%).

(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 2017 to 2019. As at 31 December 2018, the Group has unused tax losses of RMB 347,519 (2017: RMB 315,326) which can be carried forward against future taxable income for certain entities in the Mainland China and will expire within 5 years.

(iv) Other overseas profits tax

The Company's subsidiary, Prinx Chengshan Europe, s.r.o., incorporated in Slovakia, is subject to the tax rate of 21% for the year ended 31 December 2018 (2017: 21%).

No other overseas profits tax has been provided since these subsidiaries do not have assessable taxable profits for the year ended 31 December 2018.

13 Taxation (continued)

(a) Income tax expense (continued)

(v) PRC withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the Mainland China to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the Mainland China and Hong Kong, the relevant WHT will be reduced from 10% to 5%.

The 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	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**561,780**	210,018
Tax calculated at applicable tax rates	**140,652**	65,777
Expenses not deductible for tax purpose	**1,410**	594
Tax benefit from HNTE qualification	**(58,002)**	(25,870)
Additional deduction of research and development cost and other expense	**(12,866)**	(7,173)
WHT on dividends from subsidiaries	**11,986**	3,118
Tax charge	**83,180**	36,446

(b) Value-added tax ("VAT")

Sales of self-manufactured products of the Company's subsidiaries in the Mainland China are subject to VAT. The applicable tax rate for domestic sales has changed from 17% to 16% since May 2018.

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.

14 Earnings per share

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.

The diluted earnings per share are the same as the basic earnings per share since there is no dilutive item for the year ended 31 December 2018 and the convertible redeemable preferred shares would have an anti-dilutive effect during the year ended 31 December 2017.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to the shareholders of the Company	**478,600**	173,698
Weighted average number of ordinary shares in issue (thousands)	**531,068**	436,600
Basic and diluted earnings per share (RMB)	**0.90**	0.40

15 Dividends

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash dividend paid by the Company (a)	**83,082**	90,240
Final dividend proposed by the Company (b)	**132,420**	—

(a) Dividend during the years ended 31 December 2018 and 2017 represented cash dividend declared by the Company to its shareholders.

(b) On 25 February 2019, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2018 of HK$151.1 million (equivalent to RMB132.4 million at year-end exchange rate), representing HK$0.238 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.

16 Subsidiaries

The investments in subsidiaries are stated at cost, less impairment if any. The following sets out the details of the principal subsidiaries of the Company as at 31 December 2018:

Company name	Date of incorporation	Country/Place of incorporation, legal status	Registered share capital	Paid-in share capital	Directly and indirectly held 31 December 2017	Directly and indirectly held 31 December 2018	Principal activities	Note
Directly held by the Company								
Prinx Chengshan (Hong Kong) Tire Limited	6 June 2014	Hong Kong, limited liability company	USD178,000,000	USD178,000,000	100%	100%	Investment holding and trading of tire products	
Prinx Investment Holding Limited	26 November 2018	British Virgin Islands, limited liability company	USD500	USD0	N/A	100%	Investment holding	
Indirectly held by the Company								
Prinx Chengshan (Shandong) Tire Co., Ltd.	29 December 2005	Shandong China, limited liability company	USD108,000,000	USD108,000,000	100%	100%	Manufacturing and trading of tire products	
Prinx Chengshan Europe, s.r.o.	13 May 2016	Slovakia, limited liability company	EUR400,000	EUR400,000	100%	100%	Investment holding and trading of inflatable products and related products	
Prinx Chengshan (Qingdao) Industrial Research & Design Co., Ltd.	12 January 2017	Shandong China, limited liability company	RMB10,000,000	RMB10,000,000	100%	100%	Technology Research and trading of tire products	
Shandong Prinx Chengshan Tire Technology Research Co., Ltd.	26 September 2017	Shandong China, limited liability company	RMB10,000,000	RMB9,250,000	92.5%	92.5%	Tire technology and equipment research and development, providing technical service	
Qingdao Zhianda Investment Co., Ltd.	8 March 2018	Shandong China, limited liability company	RMB76,800,000	RMB404,713	N/A	100%	Investment holding and trading of tire products	
Prinx Chengshan Tire North America, Inc.	1 November 2018	California USA, limited liability company	USD303,990	USD303,990	N/A	100%	Investment holding and trading of inflatable products and related products	
Prinx (Hong Kong) Investment Limited	13 December 2018	Hong Kong, limited liability company	USD20,000	USD0	N/A	100%	Investment holding	
Prinx Chengshan Tire (Thailand) Co., Ltd.	20 December 2018	Thailand, limited liability company	THB3,000,000	THB82,000,000	N/A	100%	Manufacturing and trading of tire products	(i)

16 Subsidiaries (continued)

(i) Prinx Chengshan Tire (Thailand) Co., Ltd. was incorporated by three individual shareholders. Before the date of incorporation of Prinx Chengshan Tire (Thailand) Co., Ltd., the Group entered into certain shareholding entrustment agreements with these three individual shareholders. Pursuant to the agreements, the Group had de-facto control of Prinx Chengshan Tire (Thailand) Co., Ltd. and consolidated the financial statements of Prinx Chengshan Tire (Thailand) Co., Ltd. as a subsidiary.

17 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening net book value	**107,766**	101,575
Additions	**—**	10,381
Amortisation	**(3,834)**	(4,190)
Closing net book value	**103,932**	107,766

For the year ended 31 December 2018 and 2017, amortisation of the Group's land use rights have been charged to administrative expenses in the consolidated statement of profit or loss.

18 Property, plant and equipment

	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 2017							
Opening net book amount	360,888	746,982	2,288	4,591	70,170	20,631	1,205,550
Transferred in from construction in progress	3,962	28,285	685	348	34,757	(68,037)	—
Other additions	—	8,746	651	2,115	6,184	97,137	114,833
Disposals	(622)	(589)	—	(17)	—	—	(1,228)
Depreciation charges	(19,100)	(138,595)	(890)	(2,010)	(24,734)	—	(185,329)
Closing net book amount	345,128	644,829	2,734	5,027	86,377	49,731	1,133,826
At 31 December 2017							
Cost	499,139	2,117,876	23,820	19,796	362,416	49,731	3,072,778
Accumulated depreciation	(154,011)	(1,473,047)	(21,086)	(14,769)	(276,039)	—	(1,938,952)
Net book amount	345,128	644,829	2,734	5,027	86,377	49,731	1,133,826
Year ended 31 December 2018							
Opening net book amount	345,128	644,829	2,734	5,027	86,377	49,731	1,133,826
Transferred in from construction in progress	4,191	116,004	2,607	4,201	21,197	(148,200)	—
Other additions	—	19,222	756	—	—	402,261	422,239
Disposals	(2,461)	(880)	—	—	(12)	—	(3,353)
Depreciation charges	(19,414)	(128,630)	(1,121)	(1,869)	(29,088)	—	(180,122)
Closing net book amount	327,444	650,545	4,976	7,359	78,474	303,792	1,372,590
At 31 December 2018							
Cost	500,869	2,252,222	27,183	23,997	383,601	303,792	3,491,664
Accumulated depreciation	(173,425)	(1,601,677)	(22,207)	(16,638)	(305,127)	—	(2,119,074)
Net book amount	327,444	650,545	4,976	7,359	78,474	303,792	1,372,590

As at 31 December 2018, the net book value of buildings which have not obtained the housing title certificates amounted to approximately RMB1.7 million (2017: RMB209.1 million).

As at 31 December 2018, the net book value of buildings pledged as security for the Group's borrowings amounted to approximately RMB293.7 million (2017: nil) (Note 29).

18 Property, plant and equipment (continued)

For the year ended 31 December 2018 and 2017, 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	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**164,348**	166,261
Selling and distribution expenses	**1,295**	4,907
Administrative expenses	**1,904**	1,810
Research and development costs	**12,575**	12,351
Total	**180,122**	185,329

No material borrowing cost was capitalised into the costs of property, plant and equipment for the year ended 31 December 2018 and 2017.

19 Intangible assets

	Goodwill	Trademarks	Contractual customer relationship	Computer software	Unpatented and patented technology	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017						
Opening net book amount	43,436	876	29,826	2,414	—	76,552
Additions	—	—	—	1,153	—	1,153
Amortisation charge	—	(360)	(10,226)	(1,208)	—	(11,794)
Closing net book amount	43,436	516	19,600	2,359	—	65,911
At 31 December 2017						
Cost	43,436	1,572	51,130	18,014	—	114,152
Accumulated amortisation	—	(1,056)	(31,530)	(15,655)	—	(48,241)
Net book amount	43,436	516	19,600	2,359	—	65,911

19 Intangible assets (continued)

	Goodwill RMB'000	Trademarks RMB'000	Contractual customer relationship RMB'000	Computer software RMB'000	Unpatented and patented technology RMB'000	Total RMB'000
Year ended 31 December 2018						
Opening net book amount	43,436	516	19,600	2,359	—	65,911
Additions	—	—	—	1,658	2,247	3,905
Amortisation charge	—	(360)	(10,226)	(1,015)	(73)	(11,674)
Closing net book amount	43,436	156	9,374	3,002	2,174	58,142
At 31 December 2018						
Cost	43,436	1,572	51,130	19,672	2,247	118,057
Accumulated amortisation	—	(1,416)	(41,756)	(16,670)	(73)	(59,915)
Net book amount	43,436	156	9,374	3,002	2,174	58,142

During the year ended 31 December 2018, amortisation of the Group's intangible assets has been charged to administrative expenses in the consolidated statements of profit or loss.

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 RMB'000	Addition RMB'000	Impairment RMB'000	Other adjustment RMB'000	Total RMB'000
Year ended 31 December 2018	43,436	—	—	—	43,436

	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Other adjustment RMB'000	Total RMB'000
Year ended 31 December 2017	43,436	—	—	—	43,436

19 Intangible assets (continued)

Impairment test for goodwill (continued)

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	
	2018	2017
Sales volume (% annual growth rate)	**8%-14%**	6%-12%
Sales price (% annual growth rate)	**1%-3%**	3%-4%
Gross margin (% of revenue)	**18%-20%**	14%-17%
Long term growth rate	**3%**	3%
Pre-tax discount rate	**18%**	18%

These assumptions have been used for the analysis of CGU within the operating segment.

Sales volume is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Sales price is the average annual growth rate over the five-year forecast period. It is based on current industry trends and includes long term inflation forecasts for each territory.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in rubber, a key raw material, which management does not expect to be able to pass on to customers through price increases.

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

As at 31 December 2017 and 2018, the directors of the Company determined that there was no impairment of goodwill.

20a Financial instruments by category

	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
As at 31 December 2018			
Financial assets			
Financial assets at fair value through profit or loss	—	497,608	497,608
Amounts due from related parties	59,739	—	59,739
Trade receivables	933,541	—	933,541
Other receivables	13,752	—	13,752
Cash and cash equivalents	1,385,348	—	1,385,348
Restricted cash	83,973	—	83,973
Total	2,476,353	497,608	2,973,961

	Financial liabilities at amortised cost *RMB'000*
As at 31 December 2018	
Financial liabilities	
Borrowings	350,000
Trade payables	1,113,699
Other payables	356,325
Amounts due to related parties	28,800
Total	1,848,824

	Receivables *RMB'000*	Available-for-sale *RMB'000*	Total *RMB'000*
As at 31 December 2017			
Financial assets			
Available-for-sale financial assets	—	130,000	130,000
Amounts due from related parties	19,369	—	19,369
Trade receivables	971,272	—	971,272
Other receivables	5,592	—	5,592
Cash and cash equivalents	687,998	—	687,998
Restricted cash	120,299	—	120,299
Total	1,804,530	130,000	1,934,530

20a Financial instruments by category (continued)

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
As at 31 December 2017			
Financial liabilities			
Borrowings	—	306,075	306,075
Financial liabilities at fair value through profit or loss	374,619	—	374,619
Trade payables	—	907,106	907,106
Other payables	—	187,624	187,624
Amounts due to related parties	—	249,266	249,266
Total	374,619	1,650,071	2,024,690

20b Credit quality of financial assets

Trade receivables

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. The credit quality of trade receivables that are neither past due nor further impaired, are being assessed by reference to the reputation, credit history and management judgement about counterparty. The Group categorised the trade receivables as follows:

Group 1 — Notes receivable.
Group 2 — Accounts receivable due from customers with no defaults in the past.

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Group 1	**176,866**	449,234
Group 2	**756,675**	522,038
Total	**933,541**	971,272

Bank deposits

The management considers the credit risks in respect of bank deposits are relatively minimal as each counterparty is either a state-controlled PRC bank or a commercial bank with high credit rating. The management believes the PRC government is able to support the state-controlled PRC banks in the event of a liquidity difficulty.

20b Credit quality of financial assets (continued)

Bank deposits (continued)

The Group categorises its bank balances and restricted bank deposits into the following:

Group 1 — Major international banks (Hong Kong and Shanghai Bank (China) Company Limited), etc.
Group 2 — Top 4 banks in the PRC (China Construction Bank, Bank of China Limited, Agricultural Bank of China and Industrial and Commercial Bank of China).
Group 3 — Other state-controlled banks in the PRC.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Group 1	**28,514**	116,780
Group 2	**1,379,125**	679,403
Group 3	**61,605**	12,039
Total	**1,469,244**	808,222

21 Available-for-sale financial assets

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**130,000**	110,620
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	**(130,000)**	—
Additions	**—**	1,225,081
Disposals	**—**	(1,208,697)
Gain on disposal of available-for-sale financial assets	**—**	2,996
At the end of the year	**—**	130,000

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wealth management products with principal and interests non-guaranteed and due within one year (a)	**—**	130,000

(a) The wealth management products are fair valued using a discounted cash flow approach. The main input used by the Group is estimated yield rate written in contract with the counterparty. The fair value is within level 3 of the fair value hierarchy (Note 3.3).

22 Inventories

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**154,161**	176,393
Work-in-progress	**45,205**	44,031
Finished goods	**473,702**	468,100
	673,068	688,524
Provision for impairment of inventory	**(1,489)**	(1,321)
	671,579	687,203

During the year ended 31 December 2018, the cost of inventories recognised as an expense and included in 'cost of sales' was RMB3,646.1 million (2017: RMB3,565.7 million). Provisions of inventory write-down of RMB1.4 million were made for the year ended 31 December 2018 (2017: RMB2.4 million).

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**1,321**	2,474
Provision for write-down of inventories *(Note 9)*	**1,380**	2,383
Write-off as recorded in cost of sales	**(1,212)**	(3,536)
At the end of the year	**1,489**	1,321

23 Financial assets at fair value through profit or loss

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**—**	—
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	**130,000**	—
Additions	**4,623,827**	353,352
Disposals	**(4,271,604)**	(353,726)
Gains on disposal of financial assets at fair value through profit or loss	**14,682**	374
Fair value gains on financial assets at fair value through profit or loss	**703**	—
At the end of the year	**497,608**	—

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Financial assets at fair value through profit or loss		
— Wealth management products (a)	**468,526**	—
— Listed equity securities (b)	**29,082**	—
	497,608	—

(a) The wealth management products are fair valued using a discounted cash flow approach. The main input used by the Group is estimated yield rate written in contract with the counterparty. The fair value is within level 3 of the fair value hierarchy (Note 3.3).

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

24 Trade receivables

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts receivable	**767,317**	533,612
Less: provision for impairment of accounts receivable	**(10,642)**	(11,574)
Accounts receivable — net	**756,675**	522,038
Notes receivable	**176,866**	449,234
Trade receivables — net	**933,541**	971,272

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

24 Trade receivables (continued)

As at 31 December 2018 and 2017, the aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 3 months	**843,042**	841,588
4 to 6 months	**54,273**	122,276
7 to 12 months	**33,312**	5,478
1 to 2 years	**4,784**	5,410
2 to 3 years	**5,408**	3,859
Over 3 years	**3,364**	4,235
	944,183	982,846

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**11,574**	12,060
Provision for impairment of trade receivables *(Note 9)*	**530**	720
Trade receivables written off during the year as uncollectible	**(1,462)**	(1,206)
At the end of the year	**10,642**	11,574

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

24 Trade receivables (continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**601,416**	733,961
USD	**342,767**	248,270
EUR	**—**	615
	944,183	982,846

25 Prepayments, other receivables and other current assets

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Prepayments for purchase of property, plant and equipment	**10,979**	19,395
Other receivables	**2,000**	—
	12,979	19,395
Current		
Prepayments	**40,595**	27,356
Prepayments for listing expense	**—**	1,275
Other receivables	**11,752**	4,317
Other current assets — value added tax to be deducted	**22,442**	—
	74,789	32,948
	87,768	52,343

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.

26 Cash and cash equivalents

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash on hand	**77**	75
Cash at banks	**1,469,244**	808,222
	1,469,321	808,297
Less: Restricted cash (a)	**(83,973)**	(120,299)
	1,385,348	687,998

(a) As at 31 December 2018, the restricted cash balances amounting to RMB84.0 million were pledged as security for issuing notes payable of the Group (Note 31).

As at 31 December 2017, the restricted cash balances amounting to RMB35.0 million and RMB85.3 million were pledged as security for issuing notes payable of the Group (Note 31) and pledged as security for bank borrowings (Note 29), respectively.

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**320,151**	204,286
USD	**1,009,680**	601,367
HKD	**134,911**	1,231
EUR	**4,537**	1,413
THB	**42**	—
	1,469,321	808,297

27 Share capital and Share premium

	Number of authorised shares
Authorised share capital:	
As at 1 January 2017 and 31 December 2017 and 2018	1,000,000,000

	Number of issued shares	Nominal value of Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
Issued and fully paid:				
As at 1 January 2017	436,600,000	133	1,202,809	1,202,942
Cash dividends *(Note 15)*	—	—	(90,240)	(90,240)
As at 31 December 2017	436,600,000	133	1,112,569	1,112,702
Conversion of preferred shares *(Note (a))*	63,400,000	19	374,600	374,619
Issue of ordinary shares upon initial public offering *(Note (b))*	135,000,000	47	684,773	684,820
As at 31 December 2018	635,000,000	199	2,171,942	2,172,141

Note (a): On 1 January 2018, a supplemental agreement was entered between Chengshan Group and Sinotruk (Hong Kong) Capital Holding Limited ("Sinotruk Capital"), pursuant to which, all the Series A preferred shares were converted into 63,400,000 ordinary shares on the same date, the fair value of which amounting to USD57,332,000 (equivalent to approximately RMB374,619,000) was recognised in share capital and share premium.

Note (b): On 9 October 2018, the Company issued 135,000,000 new ordinary shares of HKD0.01 each at HKD5.89 per share under the global offering of the Company's shares in connection with the listing on the Stock Exchange of Hong Kong on the same date. The gross proceeds raised from the global offering is HKD795,150,000 (equivalent to RMB702,676,690). The relevant portion of the transaction costs amounting to HKD20,510,825 (equivalent to RMB17,856,724) was debited to the share premium.

28 Reserves

	Capital reserve RMB'000	Statutory Reserve (i) RMB'000	Translation reserve RMB'000	Retained earnings(i) RMB'000	Total RMB'000
Balance at 1 January 2017	(70,715)	100,099	(87,818)	352,129	293,695
Profit for the year	—	—	—	173,698	173,698
Currency translation differences	—	—	21,280	—	21,280
Balance at 31 December 2017	(70,715)	100,099	(66,538)	525,827	488,673
Profit for the year	—	—	—	478,600	478,600
Cash dividends *(Note 15)*	—	—	—	(83,082)	(83,082)
Profit appropriation to statutory reserves	—	49,770	—	(49,770)	—
Currency translation differences	—	—	(10,249)	—	(10,249)
Balance at 31 December 2018	(70,715)	149,869	(76,787)	871,575	873,942

(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.

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.

29 Bank borrowings

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current		
Short-term bank borrowings		
— Secured	**350,000**	256,075
— Unsecured	**—**	50,000
Total bank borrowings	**350,000**	306,075

As at 31 December 2018, the secured bank borrowings were secured by certain property, plant and equipment (Note 18).

As at 31 December 2017, the secured bank borrowings were secured by certain restricted bank balances (Note 26).

29 Bank borrowings (continued)

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**350,000**	244,000
USD	**—**	62,075
	350,000	306,075

As at 31 December 2018, the weighted average effective interest rates on borrowings from banks were 3.90% (2017: 3.31%).

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Floating rate:		
— Expiring within one year	**1,380,651**	1,275,746
— Expiring over one year	**157,688**	173,925

The exposure of the bank borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
6 months or less	**350,000**	50,000
Between 6 and 12 months	**—**	256,075
	350,000	306,075

29 Bank borrowings (continued)

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**350,000**	306,075

As at 31 December 2018 and 2017, the carrying amounts of current borrowings approximate their fair values.

30 Financial liabilities at fair value through profit or loss

As at 21 July 2015, the Company, Chengshan Group and Sinotruk Capital entered into an subscription agreement. According to the agreement, the Company would issue to Sinotruk Capital 63,400,000 series A convertible redeemable preferred shares (the "Series A preferred shares") with par value of USD0.00005 per share, amounting to USD40,000,000 (equivalent to approximately RMB253,980,000). The subscription was completed on 29 October 2015.

Certain key features of the Series A preferred shares are as follows:

(a) Redemption

Any preferred shareholders may redeem the preferred shares upon the occurrence of any of the triggering events as follows:

(1) no qualified initial public offer has been completed by the third anniversary of the business day, within a period commencing from the fourth anniversary of the business day and ending on the sixth anniversary of the business day.

(2) upon the occurrence of any material breach event by the Company or Chengshan Group, within a period of 90 days commencing from the expiration of a 30-day cure period.

(b) Dividend

The Company and Chengshan Group committed to ensure the Company to distribute dividend at least USD1,902,000 within 90 days after the end of every financial year to Sinotruk Capital.

(c) Conversion

Any preferred share may, at the option of the preferred shareholder thereof, be converted at any time into fully-paid and non-assessable ordinary shares. The number of ordinary shares to which a preferred shareholder shall be entitled upon conversion of any preferred share shall be the quotient of the original issue price divided by the then-effective Series A preferred shares conversion price. The Series A preferred shares conversion price shall initially equal the original series A Issue Price, and shall be adjusted from time to time. The initial conversion ratio for Preferred Shares to Ordinary Shares shall be 1:1.

30 Financial liabilities at fair value through profit or loss (continued)

(d) Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholder shall be entitled to receive an amount per preferred share that is equal to the original series A issue price, plus all mandatory dividend unpaid on each preferred share then held by such preferred shareholders.

After distribution or payment in full of the Series A preferred shares liquidation amount and then the ordinary share liquidation amount, the remaining assets of the Company legally available for distribution to shareholders shall be distributed ratably to the shareholders on the as-converted basis.

(e) Convertible redeemable preferred shares

The Group monitors Series A preferred shares on the fair value basis, and specifies all mixed contracts as financial liabilities at fair value through profit or loss, while the fair value changes are included in the consolidated statements of profit or loss.

(f) Conversion into ordinary shares

On 1 January 2018, all the Series A preferred shares were converted into 63,400,000 ordinary shares (Note 27(a)).

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening balance	**374,619**	339,289
Fair value losses *(Note 12)*	**—**	56,727
Converted into ordinary shares *(Note 27)*	**(374,619)**	—
Currency translation difference	**—**	(21,397)
Closing balance	**—**	374,619

The directors of the Company have used the discounted cash flow method to determine the fair value of the relevant interests of the Company and have adopted the equity allocation method to determine the fair value of Series A preferred shares on the date of issue and the respective reporting dates. The main assumptions are as follows:

	As at 31 December 2017
Discount rates	15.00%
Risk-free rate of interest	1.88%
Stock price fluctuation of comparable company	33.24%
Initial public offering probability	80%

31 Trade payables

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts payable	**590,239**	633,276
Notes payable (a)	**523,460**	273,830
	1,113,699	907,106

(a) As at 31 December 2018 and 2017, all notes payable represented bank acceptance notes were secured by certain restricted bank balances (Note 26).

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

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**1,011,649**	896,142
USD	**101,631**	10,682
EUR	**419**	282
	1,113,699	907,106

As at 31 December 2018 and 2017, the aging analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**800,329**	621,330
4 to 6 months	**300,384**	266,197
7 to 12 months	**1,958**	7,810
Above 1 year	**11,028**	11,769
	1,113,699	907,106

32 Other payables and accruals

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Payables for purchase of property, plant and equipment	**134,461**	17,242
Payroll and employee benefit payables	**123,403**	84,728
Accrued expense	**76,786**	69,854
Accrued sales rebates and commission	**68,472**	50,454
Deposit from customers	**23,276**	23,214
Other tax payables	**5,472**	10,479
Interest payables	**417**	247
Advances from customers	**—**	73,415
Other payables	**76,606**	50,074
	508,893	379,707

33 Provision for warranties

	Products warranties
	RMB'000
As at 1 January 2017	82,865
Additional provision *(Note 9)*	75,832
Utilised during the year	(71,292)
As at 31 December 2017	87,405
Additional provision *(Note 9)*	34,003
Utilised during the year	(47,535)
As at 31 December 2018	73,873

34 Deferred income

	Deferred government grant RMB'000
As at 1 January 2017	16,340
Addition	2,000
Credited to the consolidated statements of profit or loss	(2,556)
As at 31 December 2017	15,784
Addition	27,045
Credited to the consolidated statements of profit or loss	(2,883)
As at 31 December 2018	39,946

35 Deferred income tax

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

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	**24,159**	21,069
— Deferred tax assets to be recovered after more than 12 months	**651**	691
	24,810	21,760
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	**(7,048)**	(5,742)
— Deferred tax liabilities to be settled after more than 12 months	**(30,179)**	(26,572)
	(37,227)	(32,314)
Deferred tax liabilities, net	**(12,417)**	(10,554)

35 Deferred income tax (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**(10,554)**	(14,553)
(Charge)/credit for the year *(Note 13)*	**(1,863)**	3,999
At end of year	**(12,417)**	(10,554)

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

	Impairment	Accelerated tax depreciation	Accruals	Warranties	Government grants	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	2,181	1,434	8,555	8,326	2,452	555	23,503
(Charged)/credited to the consolidated statements of profit or loss	(246)	(366)	(883)	(123)	(83)	(42)	(1,743)
At 31 December 2017	1,935	1,068	7,672	8,203	2,369	513	21,760
(Charged)/credited to the consolidated statements of profit or loss	(115)	(417)	1,280	(1,009)	3,624	(313)	3,050
At 31 December 2018	1,820	651	8,952	7,194	5,993	200	24,810

35 Deferred income tax (continued)

Deferred tax liabilities

	Fair value gains arising from business combination	Depreciation difference	Total
	RMB'000		
At 1 January 2017	38,056	—	38,056
(Credited)/charged to the consolidated statements of profit or loss	(5,742)	—	(5,742)
At 31 December 2017	32,314	—	32,314
(Credited)/charged to the consolidated statements of profit or loss	(5,742)	10,655	4,913
At 31 December 2018	26,572	10,655	37,227

36 Cash generated from operations

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**561,780**	210,018
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 18)*	**180,122**	185,329
— Amortisation of land use rights *(Note 17)*	**3,834**	4,190
— Amortisation of intangible assets *(Note 19)*	**11,674**	11,794
— Gains on disposal of available-for-sale financial assets *(Note 8)*	**—**	(2,996)
— Gains on disposal of financial assets at fair value through profit or loss *(Note 8)*	**(14,682)**	(374)
— Gains from fair value change of financial assets at fair value through profit or loss *(Note 8)*	**(703)**	—
— Losses on disposal of property, plant and equipment *(Note 8)*	**3,270**	766
— Provision for impairment of receivables *(Note 24)*	**530**	720
— Provision for write-down of inventories *(Note 22)*	**1,380**	2,383
— Finance costs — net *(Note 11)*	**4,595**	9,587
— Losses from fair value change of convertible redeemable preferred shares *(Note 12)*	**—**	56,727
Changes in working capital (excluding currency translation differences on consolidation):		
— (Increase)/decrease in pledged bank deposits	**(49,016)**	4,150
— Decrease/(increase) in inventories	**14,244**	(63,916)
— Decrease/(increase) in trade receivables	**37,201**	(204,282)
— Increase in prepayments, other receivables and other current assets	**(40,212)**	(24,153)
— (Increase)/decrease in amounts due from related parties	**(40,370)**	5,050
— Increase in trade payables	**206,593**	59,831
— (Decrease)/increase in amounts due to related parties	**(16,385)**	20,347
— Increase/(decrease) in deferred income, net	**24,162**	(556)
— (Decrease)/increase in provision for warranties	**(13,532)**	4,540
— Increase/(decrease) in other payables and accruals	**6,804**	(18,421)
— Increase in contract liabilities	**59,512**	—
Cash generated from operations	**940,801**	260,734

36 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	
	2018	2017
	RMB'000	*RMB'000*
Net book value *(Note 18)*	**3,353**	1,228
Losses on disposal of property, plant and equipment *(Note 8)*	**(3,270)**	(766)
Proceeds from disposal of property, plant and equipment	**83**	462

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

	Financial liabilities at fair value through profit or loss *RMB'000*	Bank borrowings *RMB'000*	Amounts due to non-controlling interests *RMB'000*	Loans from related parties *RMB'000*	Total *RMB'000*
As of 1 January 2017 *(Note)*	352,062	—	—	436,841	788,903
Cash flows					
— inflow from financing activities	—	340,943	—	—	340,943
— outflow from operating activities	(13,104)	(2,063)	—	—	(15,167)
— outflow from financing activities	—	(32,972)	—	(318,569)	(351,541)
Non-cash changes					
— fair value changes	56,727	—	—	—	56,727
— interest expense	13,104	2,310	—	—	15,414
— currency translations	(21,742)	(1,896)	—	(8,520)	(32,158)
As of 31 December 2017 *(Note)*	387,047	306,322	—	109,752	803,121
Cash flows					
— inflow from financing activities	—	350,000	23,654	—	373,654
— outflow from operating activities	(11,969)	(8,829)	—	—	(20,798)
— outflow from investing activities	—	—	(23,493)	—	(23,493)
— outflow from financing activities	—	(309,863)	—	(102,792)	(412,655)
Non-cash changes					
— interest expense	—	8,999	—	—	8,999
— converted into ordinary shares	(374,619)	—	—	—	(374,619)
— currency translations	(459)	3,788	(161)	(3,276)	(108)
As of 31 December 2018 *(Note)*	—	350,417	—	3,684	354,101

36 Cash generated from operations (continued)

(c) The reconciliation of liabilities arising from financial activities is as follows: (continued)

Note: The balance of these financial liabilities comprise "financial liabilities at fair value through profit or loss", "bank borrowings", "amounts due to related parties" and respective interest payable recorded in "amounts due to related parties" and "other payables and accruals".

37 Commitments

(a) Capital commitments

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
— Contracted but not provided for	**57,304**	39,940

(b) Commitments under operating leases

As at 31 December 2018 and 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**9,052**	1,631
Later than 1 year and no later than 5 years	**9,458**	1,344
	18,510	2,975

38 Acquisition and disposal of a subsidiary

Prinx Chengshan Tire (Malaysia) Sdn. Bhd. ("Chengshan (Malaysia)") is a limited liability company established in Malaysia on 25 January 2017 with an initial authorized share capital of RM 400,000 divided into 400,000 ordinary shares of RM1.00 each. On the date of incorporation, a total of two shares were allotted and issued at par value to the initial subscribers, each being an independent third party, which were subsequently transferred to Chengshan Group on 10 March 2017 at par value.

On 5 February 2018, two shares, four shares and two shares were allotted and issued at par value to Chengshan Group, Prinx Chengshan (Shandong) Tire Co., Ltd. and Prinx Chengshan (Hong Kong) Tire Limited, respectively. As a result, the Group owns 60% of the equity interest in Chengshan (Malaysia) and Chengshan Group owns the remaining 40% of the equity interest in Chengshan (Malaysia). On 27 March 2018, the Group transferred four shares and two shares from Prinx (Shandong) Tire and Prinx Chengshan (Hong Kong) Tire Limited in Chengshan (Malaysia) to Chengshan Group, respectively. Upon completion of the transfer, Chengshan (Malaysia) became a wholly-owned subsidiary of Chengshan Group.

During the period from its date of incorporation and up to the disposal date, Chengshan (Malaysia) is in preparatory stage, had not commenced any operations and did not constitute a business. On the date of acquisition, the main assets are cash and cash equivalents, and the net inflow of cash and cash equivalents on acquisitions is approximately RMB27.0 million, On the date of disposal, the main assets are cash and cash equivalents, and the net outflow of cash and cash equivalents on disposal is approximately RMB53.8 million.

39 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 2018 and 2017, and balances arising from related party transactions as at the respective balance sheet dates.

39 Related party transactions (continued)

Name and relationship with related parties are set out below:

Related party	Relationship
Chengshan Group	Immediate holding company
Chengshan Trade (Hong Kong) Limited (“Chengshan Trade”)	Entity controlled by immediate holding company
Sinotruk Capital	The preferred shareholder of the Company up to 1 January 2018 and the shareholder of the Company from 1 January 2018
China National Heavy Duty Truck Group Co., Ltd. and its subsidiaries (referred as “Sinotruk”)	Controlled by same ultimate parent company of Sinotruk Capital
Rongcheng Chengshan Properties Co., Ltd.	Entity controlled by immediate holding company
Rongcheng Chengshan Energy-Saving Services Co., Ltd.	Entity controlled by immediate holding company
Yunnan Prinx Chengshan Tire Co., Ltd.	The associated company of the Group, established on 12 July 2018, 22% equity interest attributable to the Group

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.

39 Related party transactions (continued)

(a) Transactions with related parties

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Continuing transactions		
(i) Purchase of raw materials		
— Sinotruk	**63,371**	133,190
(ii) Purchase of utilities		
— Chengshan Group	**133,763**	185,826
(iii) Sale of goods		
— Sinotruk	**313,193**	271,866
— Yunnan Prinx Chengshan Tire Co., Ltd.	**20,217**	—
	333,410	271,866
(iv) Rental and estate management expenses paid and payable		
— Rongcheng Chengshan Properties Co., Ltd.	**5,009**	5,296
— Chengshan Group	**7,810**	7,845
	12,819	13,141
(v) Service received		
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	**9,626**	7,814

39 Related party transactions (continued)

(a) Transactions with related parties (continued)

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Non-continuing transactions		
(vi) Interests paid and payable		
— Sinotruk Capital	**—**	13,104
(vii) Inter-company transactions		
Repayment of loans granted to		
— Chengshan Group	**—**	79,999
Repayment of loans to		
— Chengshan Trade	**78,588**	311,298
— Chengshan Group	**24,204**	7,271
	102,792	318,569

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

39 Related party transactions (continued)

(b) Balances with related parties

(i) Amounts due to related parties

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current		
Loans from related parties		
— Chengshan Trade	**—**	81,404
— Chengshan Group	**3,684**	28,348
	3,684	109,752
Dividend payable		
— Chengshan Group	**—**	85,585
Interest payable		
— Sinotruk Capital	**—**	12,428
Contract liability		
— Yunnan Prinx Chengshan Tire Co., Ltd.	**4,777**	—
Trade payable		
— Chengshan Group	**14,536**	41,501
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	**5,803**	—
	20,339	41,501
	28,800	249,266

The balances of loan from related parties were unsecured, non-interest bearing and had no fixed repayment term as at 31 December 2018 and 2017.

39 Related party transactions (continued)

(b) Balances with related parties (continued)

(i) Amounts due to related parties (continued)

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**25,116**	127,086
USD	**3,684**	122,180
	28,800	249,266

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Less than 3 months	**20,339**	41,501

(ii) Amounts due from related parties

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current		
— Sinotruk (Trade balance)	**59,739**	19,369

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	
	2018	2017
	RMB'000	*RMB'000*
Less than 3 months	**59,739**	19,369

40 Contingencies

There are no contingencies to cause material impact on the Group.

41 Events occurring after the reporting period

On January 3, 2019 and January 15, 2019, Prinx Chengshan (Shandong) Tire Company Limited, a subsidiary of the Group, obtained the approval for investment in Thailand from Shandong Department of Commerce and Shandong Development and Reform Commission of 0.8 million All Steel Radial Tires and 4 million Semi-Steel Radial Tires respectively, totaling investment amounts USD299 million. Apart from that, there are no events to cause material impact on the Group from the balance sheet date to the date of this report that should be disclosed.

42 Balance sheet and reserve movement of the Company

	Note	**As at 31 December 2018** ***RMB'000***	As at 31 December 2017 *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**2**	—
Interests in subsidiaries		**1,792,023**	1,609,068
		1,792,025	1,609,068
Current assets			
Financial assets at fair value through profit or loss		**29,082**	
Cash and cash equivalents		**600,798**	46
		629,880	46
Total assets		**2,421,905**	1,609,114
Equity			
Share capital	27	**199**	133
Share premium	27	**2,171,942**	1,112,569
Reserves	a	**244,193**	23,780
Total equity		**2,416,334**	1,136,482

42 Balance sheet and reserve movement of the Company (continued)

	Note	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Liabilities			
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**—**	374,619
Current liabilities			
Other payables and accruals		**2,672**	—
Amounts due to related parties		**2,899**	98,013
		5,571	98,013
Total liabilities		**5,571**	472,632
Total equity and liabilities		**2,421,905**	1,609,114

The balance sheet of the Company was approved by the Board of Directors on 25 February 2019 and were signed on its behalf.

Che Baozhen
Director

Shi Futao
Director

Note (a): Reserve movement of the Company

	Translation reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2017	107,471	(45,035)	62,436
Profit for the year	—	33,493	33,493
Currency translation differences (i)	(72,149)	—	(72,149)
Balance at 31 December 2017	35,322	(11,542)	23,780
Profit for the year	—	223,853	223,853
Cash dividends	—	(83,082)	(83,082)
Currency translation differences (i)	79,642	—	79,642
Balance at 31 December 2018	114,964	129,229	244,193

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