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 2019 ANNUAL REPORT

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Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. Che Hongzhi *(Chairman)*
Mr. Wang Lei
Mr. Chen Yansheng (resigned on February 24, 2020)
Mr. Shao Quanfeng (appointed on February 24, 2020)

Independent Non-executive Directors

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

Audit Committee

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

Nomination and Remuneration Committee

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

Development Strategy and Risk Management Committee

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

Registered Office

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

Principal Place of Business in the PRC

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

Principal Place of Business in Hong Kong

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

Authorized Representatives

Ms. Cao Xueyu
Mr. Shi Futao

Joint Company Secretaries

Ms. Cao Xueyu (effective from March 29, 2019)
Ms. Lam Yuk Ling (ACIS, ACS)

Legal Adviser

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
Shops 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

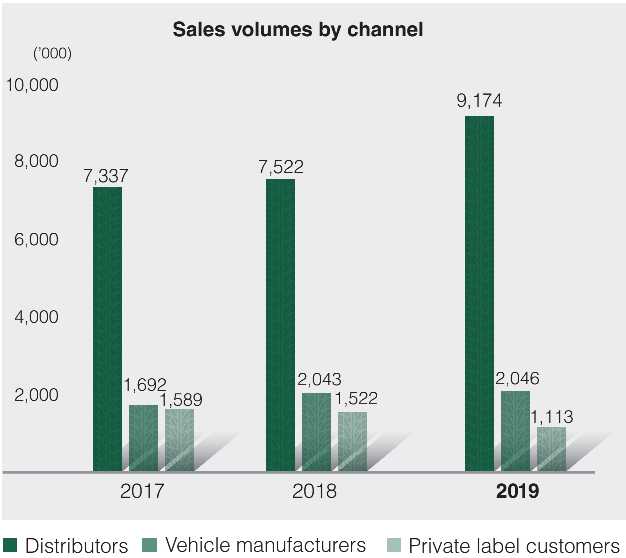
Financial Summary

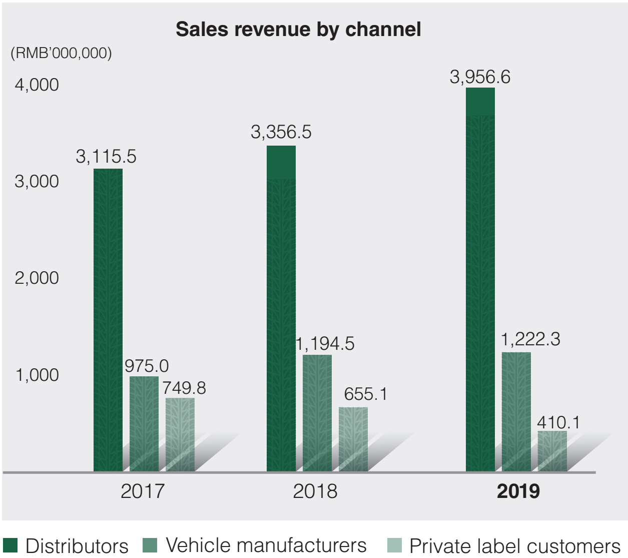
Summary of the Consolidated Statement of Profit or Loss

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**5,588,988**	5,206,087	4,840,396	3,821,728	3,521,879
Profit before income tax	**550,004**	561,780	210,018	346,182	296,125
Income tax expense	**(70,287)**	(83,180)	(36,446)	(54,976)	(132,981)
Profit for the year	**479,717**	478,600	173,572	291,206	163,144
Profit attributable to:					
— Shareholders of the Company	**479,717**	478,600	173,698	291,206	163,144
— Non-controlling interests	**—**	—	(126)	—	—
	479,717	478,600	173,572	291,206	163,144

Consolidated Assets, Liabilities and Non-controlling Interests

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**5,828,248**	5,256,420	3,975,987	3,750,723	3,143,073
Total liabilities	**(2,413,930)**	(2,210,463)	(2,374,738)	(2,254,086)	(1,891,137)
Non-controlling interests	**(389)**	126	126	—	—
	3,413,929	3,046,083	1,601,375	1,496,637	1,251,936


Sales volumes by channel
('000)
10,000
8,000
6,000
4,000
2,000
7,337
1,692
1,589
7,522
2,043
1,522
9,174
2,046
1,113
2017
2018
2019
Distributors
Vehicle manufacturers
Private label customers


Sales revenue by channel
(RMB'000,000)
4,000
3,000
2,000
1,000
3,115.5
975.0
749.8
3,356.5
1,194.5
655.1
3,956.6
1,222.3
410.1
2017
2018
2019
Distributors
Vehicle manufacturers
Private label customers

Chairman's Statement

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 2019 of the Company for your review.

In 2019, the overall situation of domestic and foreign market economy, trade environment and tire industry is still complex and severe. The domestic economy has entered the stage of structural adjustment, transforming from high-speed development to high-quality development. With the changing international market and the impact of the trade war between the People's Republic of China (the "**PRC**") and the United States, the importance of the global development of Chinese manufacturing enterprises has been highlighted. 2019 is also a challenging year for the PRC's automotive industry, with the production and sales of passenger cars declining year on year, but the demand for commercial vehicles remaining strong. The changes in the automotive industry also bring new opportunities and challenges to parts companies.

Faced with severe and complex internal and external situations, all Directors fulfilled their duties and performed their duties conscientiously in 2019. The Board paid close attention to the trend of the tire industry, made targeted adjustments to the business strategy, and accelerated the intelligent transformation and upgrading of the industry and business expansion. The Company and its subsidiaries (the "**Group**"), focusing on user needs and market orientation, improved the distribution of sales networks by promoting new sales modes and services, enhanced brand influence by strengthening brand promotion, and optimized the Company's production processes and manufacturing costs by increasing research and development ("**R&D**") investment and digitizing the manufacturing process. At present, the first phase of production expansion of Rongcheng factory has been put into operation on schedule, and the construction of Tire Production Base in Thailand has been steadily promoted to meet the growing demand of overseas customers. The Company actively undertook social responsibilities and won the 2018/2019 Public Service Excellence Award issued by The Community Chest and the Social Responsibility Award for Listed Companies in 2019 issued at the 9th China public service festival. The Company earnestly fulfilled the responsibilities entrusted by its shareholders, and won the China financing award "The Most Promising Listed Company" sponsored by China Financial Market and undertaken by Wonderful Sky Financial Group Holdings Limited, and the "Most Valuable Company in Automobile and Industrial Manufacturing Sector" of the Forth Session of Best Hong Kong Stock Award issued by zhitongcaijing.com. Its stock has been included in the MSCI China small-cap index since November 26, 2019.

In 2019, the Group's sales revenue rose to approximately RMB5.589 billion, and the net profit reached the expected level to achieve RMB480 million with the implementation of the strategic goal of continuing to increase the R&D expenditure and advancing the early-stage investment of the project in Thailand. The Company continued to develop steadily.

Despite the uncertainty of 2020 due to the impact of the epidemic outbreak of novel coronavirus pneumonia (the "**NCP Epidemic**" or the "**epidemic**"), we believe that opportunities for sustained global economic growth remain. The Group has focused on deepening the market deployment and ensuring the construction of Tire Production Base in Thailand, while taking measures to control costs and maintain core competitiveness. Faced with so many uncertainties in the industry, the Group will pay more attention to cash flow, maintain effective capital investment, and firmly implement the international development strategy. I and the members of the Board firmly believe that the Group, with its rich industry experience and superior core competitiveness, will be able to provide customers with better services, bring greater value and returns to its shareholders!

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

Che Hongzhi
Chairman

Hong Kong, March 20, 2020

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

Industry dynamics

Due to the downward cycle of the global economy, the adjustment of the domestic economic structure, and the end of the rapid growth of automobile production and sales for years, the domestic tire production showed an inflection point, and the output declined for two consecutive years. A trend of small decline is temporarily presented. Domestic tire industry and enterprises began to move forward in the direction of high-quality development driven by innovation, transformation and upgrade.

The tire industry became increasingly concentrated. Elimination of backward production capacity and transformation and upgrade of green high-end manufacturing are the main melody for the current tire production capacity development. In recent years, with the change of the national environmental protection, safety and regulations, the tire industry has become more concentrated, with the strong winning and the weak eliminated.

Sales of domestic brands continued to grow. With the upgrading of technology, improvement of service quality and brand publicity, domestic brand tires are more and more recognized by domestic consumers and the sales volume keeps increasing. At the same time, domestic tire enterprises sped up the pace of going out. A number of enterprises announced the establishment of overseas factories or new overseas factories, promoting the global deployment.

Operation review

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 43 years, adhering to the core strategy of cost leadership, efficiency driven, competitive differentiation and global operation.

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

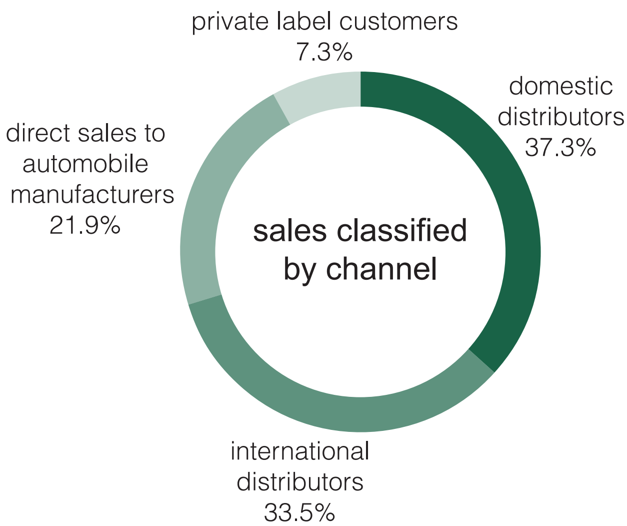
During the year ended December 31, 2019 (the "**Reporting Period**"), the Group's overall operations were stable and its performance was in line with expectations. The annual operating revenue was approximately RMB5,589.0 million, representing a year-on-year increase of approximately RMB382.9 million or approximately 7.4%. The gross profit was approximately RMB1,075.3 million, representing a year-on-year growth of approximately RMB72.2 million or approximately 7.2%. The profit attributable to the owners of the Company for the year ended December 31, 2019 was approximately RMB479.7 million, with a year-on-year increase of approximately RMB1.1 million or approximately 0.2%.

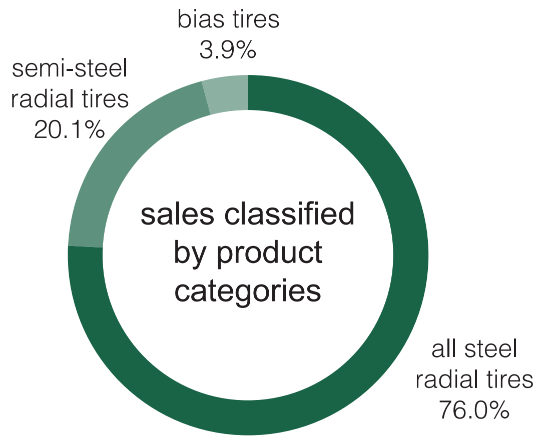
This year, the Group organized and carried out various works based on the plans formulated in 2018. The production expansion project was in smooth progress. The first phase of the capacity expansion project of Rongcheng all steel radial tires was put into full operation, offering a new capacity of 1.65 million sets, and increasing the annual production capacity from approximately 4.7 million sets to 6.35 million sets. The first phase of the capacity expansion project of Rongcheng semi-steel radial tires was also put into service, offering a new capacity of approximately 1.9 million sets and increasing the annual production capacity from approximately 6.5 million sets to 8.4 million sets. The increased capacity would help us to bring into play the economies of scale of the tire industry, seize market share, and strengthen profitability.

The Group's overseas production base in Thailand ("**Tire Production Base in Thailand**") is in line with the overall construction schedule. The first phase of the project is expected to be put into operation in the second quarter of 2020. After it comes into operation, the annual production capacity of all steel radial tires and semi-steel radial tires can be increased by 800,000 sets and 4 million sets, respectively. This factory adopts the leading design concept of the tire industry and is designed based on the standard of green intelligent manufacturing, which provides a new impetus for the global development of Prinx Chengshan.

The Group's three major products are all steel radial tires, semi-steel radial tires, and bias tires. All steel radial tires, which are the main source of the Group's business result, are mainly used in intermediate/long distance transportation, buses, mixed road or off-road vehicles, and light trucks. Semi-steel radial tires are mainly used in passenger cars, pickup trucks and SUVs. Bias tires are mainly installed in agricultural and industrial off-road conditions for vehicles.

The Group mainly supplies to the replacement markets through distributors. For the year ended December 31, 2019, the revenue from the Group's domestic and international distributors was approximately RMB2,082.2 million (2018: RMB1,811.4 million) and RMB1,874.4 million (2018: RMB1,545.1 million), respectively, accounting for approximately 37.3% and 33.5% of the total revenue; the revenue from direct sales to automobile manufacturers was approximately RMB1,222.3 million (2018: approximately RMB1,194.5 million), accounting for approximately 21.9% of the total revenue of the Group; the revenue from private label customers was approximately RMB410.1 million (2018: approximately RMB655.1 million), accounting for approximately 7.3% of the total revenue of the Group. All steel radial tires, semi-steel radial tires and bias tires accounted for approximately 76.0%, 20.1% and 3.9% of total revenue of the Group respectively. In addition, the innovative sales model, "Zhianda" sales model, gradually became mature through practice, which will bring new sales growth point.





Business review

Distributors

Domestic distributors

Business measures

During the Reporting Period, the Group took the following operational measures to strengthen the relationship with domestic distributors and improve the distribution performance:

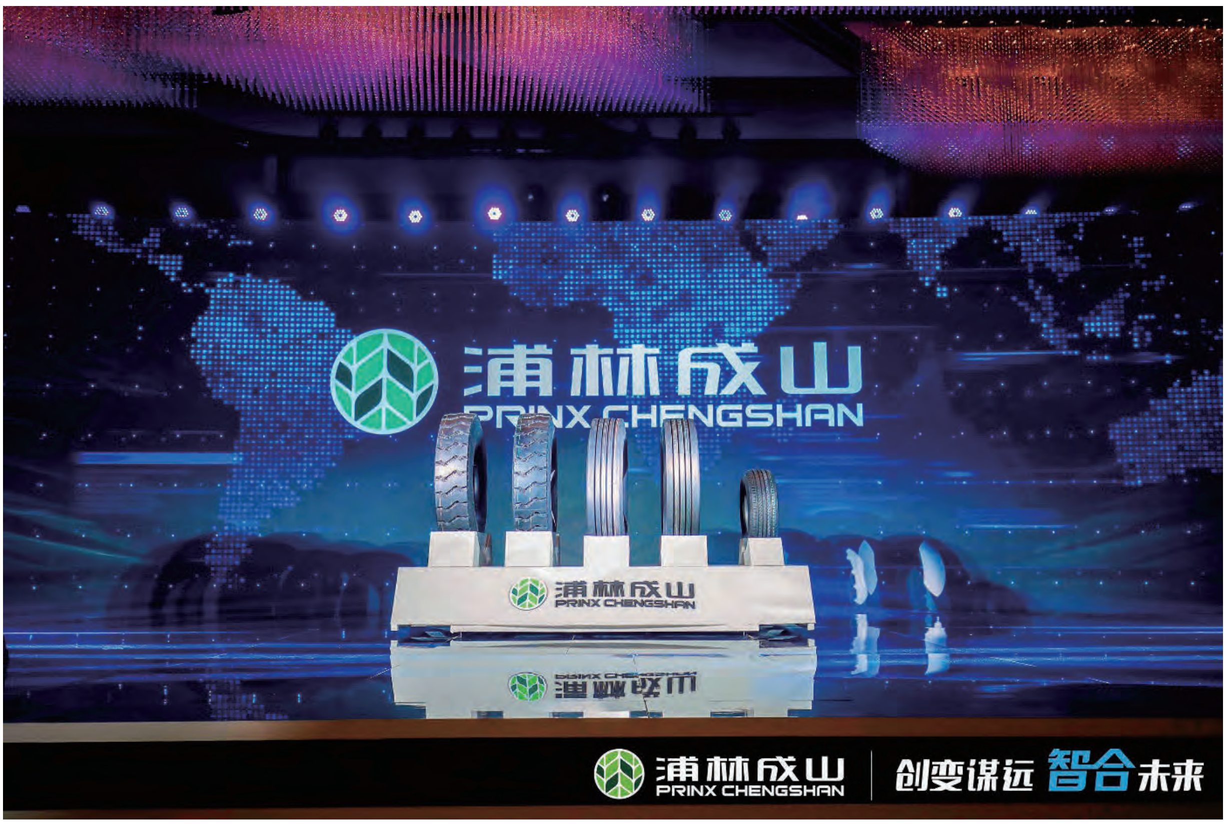
(I) adopted diversified sales strategies to optimize product structure, established product lines combining high-, medium- and low-end portfolios for key market segments, promoted strengths and avoided weaknesses, and expanded and improved sales categories in a timely manner;

(II) developed flexible sales plans, implemented key breakthrough strategy for the terminal market, improved the market share of regional market segments, actively cultivated new distributors, built five-star retail stores, and improved channel coverage;

(III) carried out in-depth cooperation with manufacturers and set up associated companies in Yunnan and Hebei, which showed good development momentum, smooth operation and outstanding sales performance; empowered the partners to realize altruism and win-win result through different conference marketing methods focusing on in-depth communications. On December 16, 2019, the annual partner conference of Prinx Chengshan, with the theme of "creating a better future through innovation and reform", was successfully held in Suzhou;

(IV) refined sales management, provided value-added services. By launching the CRM (customer relationship management system), we realized the interconnection of customer management, order management, credit management, price management, marketing management, pipeline management, after-sales service management and other sales related modules, realized the three-dimensional, transparent and fine management of the business team, service team and customers, and unified the management of sales data. Through the application of big data analysis, we established a more scientific and perfect customer rating system, realized the automatic correction and arrangement of customer orders, improved the order satisfaction rate and timely delivery rate, and provided customers with faster and better services; and

(V) established the e-commerce platform, completed the opening promotion, double eleven, double twelve and other major activities, and improved brand influence. With the effective combination of online and offline "tire insurance", the Group provided customers with travel guarantee without worry for sales. Through the establishment of the "service +" platform, the time of faulty tires identification was shortened from 48 hours to 2 hours, so as to improve customer satisfaction.



International marketing

Business measures

Due to the trade war between PRC and the United States and the implementation of anti-dumping and countervailing measures by the United States on all steel products, tire products exported from PRC to the United States were sharply reduced in 2019, and the substantial reduction of products exported to the United States further aggravated the excess domestic production capacity, leading to intensified competition in the markets beyond the United States. The Group actively developed the international market, developed new customers, and explored new market. During the Reporting Period, the Group participated in several large international trade fairs, with an aim to increase brand awareness, seek potential partners, and enhance overseas publicity and marketing efforts. On October 16, 2019, the 2019 International Distributor Meeting Prinx Chengshan with the theme of "Together For Future" was successfully held in the ancient city of Xi'an, demonstrating the Company's new development strategy.

In addition, the Group optimized the organization, management and personnel structure of sales companies in Europe and North America. The Group made channel deployment in advance, laying a solid foundation for the sales of the products manufactured by the Tire Production Base in Thailand in 2020.

Business Review

During the Reporting Period, the Group's domestic distributor channel revenue was approximately RMB2,082.2 million, which increased by approximately 14.9% when compared with approximately RMB1,811.4 million in 2018; the revenue from international distributor channel was approximately RMB1,874.4 million, which increased by approximately 21.3% when compared with approximately RMB1,545.1 million in 2018. The international marketing channels have the ability to support the strategic sales of the Group initially.

Direct sales to automobile manufacturers

Business measures

During the Reporting Period, the Group enhanced its business cooperation with automobile manufacturers, improved its market competitiveness and channel customer stickiness, cooperated with more than 30 vehicle manufacturers in 42 supporting projects, and established a mature direct sales channel with many automobile manufacturers.

Business Review

The Group has become the mainstream supplier of more than 30 large vehicle manufacturers such as Sinotruk, JMC, DFLZM and FAW, and became the supplier of vehicle manufacturers such as BAIC Daimler, Dongfeng Suizhuan and Great Wall Motor during the Reporting Period. By far, the top 10 commercial vehicle manufacturers in terms of domestic sales have all entered the supporting system of the Group. The Group has become the supporting manufacturer of the world's first "5G + intelligent driving" project of SAIC Iveco Hongyan Automobile, marking another breakthrough in the research and application of Prinx Chengshan in the field of intelligent tires. Through the cooperation with a number of mature automotive enterprises, the Group was able to improve its R&D and product performance to meet the needs of more customers. The Company ranked the 49th on the List of China Top 100 Auto Parts Companies in 2019.

During the Reporting Period, the Group's direct sales to automobile manufacturers were approximately RMB1,222.3 million, which increased by approximately 2.3% when compared with approximately RMB1,194.5 million in 2018.

Private label customers

Business measures

The Group's current private label customers are Cooper and other newly developed customers. Due to the impact of trade barriers between the PRC and the United States, the percentage of private label sales to Cooper as a proportion of the Group's total sales decreased from 10.0% in 2018 to 5.3% in 2019, and the private label agreement between the Group and Cooper will expire on June 30, 2021. In this regard, the Group has planned ahead to continuously expand the market share of its own brand in the domestic and overseas markets, while increasing the sales of other private label customers to ensure the steady growth of the Group's export revenue.

During the Reporting Period, the Group's sales to private label customers were approximately RMB410.1 million, which decreased by approximately 37.4% when compared with approximately RMB655.1 million in 2018.

Innovative sales model

Business measures

During the Reporting Period, the Group launched a new service brand of "Zhianda" and launched an innovative sales model of "Zhianda tire full life cycle" ("**Zhianda Model**"). Through the effective application of intelligent technology, we created a service-oriented application of tire products in the field of truck and bus tires, in order to maximize the use efficiency of tires, achieve the goal of green and sustainable, and make it more convenient to use at lower cost. Through the Zhianda Model, the Group can conduct intelligent management of the fleet, reduce the human resources required and improve the capability of big data analysis and application, so as to further improve the business result.

Business Review

Through the Zhianda Model, the Group has set up subsidiaries in Jinan, Shanghai and Shenzhen, and established its own IT service team, which can independently develop software and effectively boost the level of intelligent management. During the Reporting Period, the customer group of Zhianda Model grew and the model became more mature, but being in the market development stage, the Zhianda Model did not bring obvious benefits to sales.

New products

During the Reporting Period, the Group developed and marketed 63 new products of all steel radial tires and 139 new products of semi-steel radial tires, which further improved its product competitiveness and market share in niche markets. At the same time, based on the supporting market demand, the development trend of the replacement market and the needs of the Tire Production Base in Thailand for production in 2020, the Group planned to develop 4 models of all steel radial tires and 8 models of semi-steel radial tires with new patterns.

As of the end of the Reporting Period, 35 models of all steel products and 175 models of semi-steel products for Tire Production Base in Thailand had been developed and stored in Rongcheng factory, providing strong product support and guarantee for the Group's further expansion of overseas business and its performance improvement in 2020. Orders for both traditional and new products increased steadily during the Reporting Period.

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

Product type	Sales of new products (10,000 sets)	Total sales (10,000 sets)	Proportion of sales of new products in total sales
All Steel Radial Tires	192.0	525.6	36.5%
Semi-steel Radial Tires	186.2	635.6	29.3%
Bias Tires	1.1	72.2	1.5%
Total	379.3	1,233.4	30.8%

The Group has always focused on R&D and innovation. During the Reporting Period, great achievements were made in product R&D and process manufacturing improvement, the technical team had been effectively expanded and strengthened, and the product planning direction became clear. The passenger car tires of Prinx Chengshan "Prinx HT1" won the title of "National Brand Annual High-performance SUV Tires" awarded by the selection committee of "Xi Zhong Award", and its all steel tires "Chengshan CST-121" won the "Annual Driving Wheel Position Award" issued by the selection committee of "Xi Zhong Award". The effort and speed of testing the new material were significantly accelerated. The Group has been recognized as a "Joint Key Laboratory of the Ministry of Education" for rubber and plastic materials and engineering of Qingdao University of Science and Technology. In 2019, it had 7 projects included into the first batch of technical innovation projects of Shandong and 9 projects included into the third batch. Some of these projects reached the domestic advanced level, helping the Group to create new drivers, improve quality and efficiency, realize transformation and upgrading, and achieve a new leap forward.

Intelligent manufacturing

During the Reporting Period, the Group built a smart factory, designed and built the Tire Production Base in Thailand according to intelligent standards, including creating a smart factory benchmark, and improving operation efficiency through the application of simulation technology and information interconnection technology; further optimizing the process capacity, effectively reducing the logistics and transfer cost, and steadily improving the product quality through the implementation of digital transformation, standard working hour system, 6S logistics improvement and other relevant projects; realizing the integrated management and control of equipment, personnel, materials and process standards, standardizing operations, enhancing the Group's control over product process and improving the manufacturing capacity through the integration and enhancement of MES (production and manufacturing execution system). The Group's comprehensive energy consumption per tire unit product is at the leading level in the industry, and it has been recognized as "the leading benchmark enterprise in energy efficiency of key energy-consuming products in the petroleum and chemical industries" for four consecutive years. The Group also relies on the strict quality control system covering the whole life cycle of products. It has won the title of the PRC's first batch of green factories issued by the Ministry of Industry and Information Technology. The stable product performance provided a solid backing to improve the brand image and increase customer satisfaction.

During the year, the Group continued to integrate the supply chain, control the procurement costs, enhance the competitiveness of its products and integrate the logistics center into the supply chain management center to connect the front end production with the rear logistics, and improve the support delivery capacity, while strictly following its internal control requirements, which in turn lays a solid foundation for reducing costs and improving efficiency. The Group was awarded the title of "AAA Credit Enterprise" by Xinyunlian International Credit Evaluation Co., LTD under the 315 national credit system.

The development experience of Prinx Chengshan has created the spirit of "bearing heavy burdens, pursuing excellence, surpassing oneself and striving for innovation", formed the DNA of Prinx Chengshan people, and created a team that can endure hardship and fight and will never quit and never give up. The Group stimulated the enthusiasm of all staff by establishing a comprehensive compensation and reward system, and made best efforts to foster and retain talents.

Operation strategies and outlook

Looking ahead to 2020, the external environment is full of challenges. Affected by the trade friction between the PRC and the United States and the NCP Epidemic, the market environment has become increasingly complex, and the domestic and international economic situation is full of variables. The overall situation is grim, but opportunities and challenges coexist.

In this situation, the Group needs to prepare for the future, assess the situation and respond promptly to the market trends, promptly adjust the pace of manufacturing, procurement and sales, and work closely with partners in the upstream and downstream of the industrial chain to tide over the difficulties and maintain a healthy industrial chain ecology. The Group will adopt the following strategies:

(I) **Focus strategy:** Strengthen the ability of strategy execution, implement the strategy in detail, further standardize the system, straighten out the process, improve the efficiency, and lay a solid foundation for the subsequent internationalization of the Group's operations.

(II) **Enhancing internal management:** Continue to improve the marketing, R&D, manufacturing, procurement, quality and control systems, establish systematic and regular review, revision and improvement mechanisms, and form a self-improving management system. Optimize the Group's production process and manufacturing cost by increasing R&D investment and digitization of manufacturing process to create core advantages of high-quality development.

(III) Flexible sales: With the all steel and semi-steel expansion projects put into production in 2019, and the Tire Production Base in Thailand put into production in the second quarter of 2020, the global deployment of the Group will be benefited. In order to rapidly increase sales volume and absorb new production capacity, the Group will make use of the advantages and accumulation of existing marketing channels, flexibly use sales strategies, make active overseas market deployment, develop potential customers to expand market share. The Group will establish more star retail stores in the domestic all steel replacement market, expand and extend its services, implement unbounded linkage services in stages, and effectively organize the distributor network, focusing on the extension of the township and town terminal network. As to domestic semi-steel replacement market, the Group will optimize the sales channel, improve the distribution network layout, assist distributors to sink the sales channel, increase the network coverage, and improve brand awareness. For the domestic supporting market, the Group will stabilize and promote the share of mature vehicle manufacturers, expand new models, and focus on the development of representative commercial vehicle manufacturers and promote the supporting process of passenger vehicle manufacturers.

(IV) Innovation of marketing models: Actively explore new marketing models, promote the service brand "Zhianda" and realize alliance, resource sharing, win-win cooperation with distributors; set up a channel service team to help distributors maintain and serve key retailers and improve stickiness; try to create a national "linkage service" network and share the warehouses; try to realize crossover channel connection, carry out joint brand promotion through shared channels and shared promotion activities with different industries. Both parties shall cooperate and share customer resources to improve operational efficiency, improve service, reduce cost and improve customer stickiness.

(V) Sparing no efforts: Ensure the Tire Production Base in Thailand is put into operation on schedule in the second quarter of 2020. Actively train talents with systematic strategic awareness to operate in the international market, recruit local staff, carry out corporate culture construction, and prepare the personnel and operation system for production by institutionalizing the operating policies and operating indicators of the Company based on the accumulation of Rongcheng factory as well as the standardized process, operation instructions and business rules.

FINANCIAL REVIEW

Revenue

For the year ended December 31, 2019, revenue of the Group amounted to approximately RMB5,589.0 million, representing an increase of approximately RMB382.9 million compared to approximately RMB5,206.1 million for the year ended December 31, 2018.

Sales by product type	2019 RMB'000	2018 RMB'000
All Steel Radial Tires	**4,247,999**	3,968,945
Semi-Steel Radial Tires	**1,123,382**	1,093,195
Bias Tires	**217,607**	143,947
Total	**5,588,988**	5,206,087

For the year ended December 31, 2019, revenue from sales of all steel radial tires increased by approximately 7.0% from approximately RMB3,968.9 million for the year ended December 31, 2018 to approximately RMB4,248.0 million, which was primarily attributable to increase of sales volume; revenue from sales of semi-steel radial tires increased by approximately 2.8% from approximately RMB1,093.2 million for the year ended December 31, 2018 to approximately RMB1,123.4 million for the year ended December 31, 2019, which was primarily attributable to increase of sales volume. The increase in revenue from sales of bias tires was primarily attributable to increase of sales volume through the channel of international distributors.

Sales by channel	2019 RMB'000	2018 RMB'000
Distributors		
Domestic	**2,082,230**	1,811,418
International	**1,874,352**	1,545,076
	3,956,582	3,356,494
Direct Sales to Automobile Manufacturers	**1,222,325**	1,194,491
Private Label Customers	**410,081**	655,102
Total	**5,588,988**	5,206,087

For the year ended December 31, 2019, revenue from sales to distributors increased from approximately RMB3,356.5 million for the year ended December 31, 2018 to approximately RMB3,956.6 million, which was primarily attributable to further exploration in domestic and international markets and increase in market share.

For the year ended December 31, 2019, revenue from sales to automobile manufacturers increased from approximately RMB1,194.5 million for the year ended December 31, 2018 to approximately RMB1,222.3 million, which was primarily attributable to continuing increase in customers' orders arising from high-quality products and all-round after-sales services.

For the year ended December 31, 2019, revenue from sales to private label customers decreased from approximately RMB655.1 million for the year ended December 31, 2018 to approximately RMB410.1 million, which was primarily attributable to the overall reduction in tire sales to Cooper under the contractual arrangement and impacts caused by tariff imposed by the United States government on products imported from the PRC.

Cost of Sales

The Group's cost of sales increased from approximately RMB4,203.0 million for the year ended December 31, 2018 to approximately RMB4,513.7 million for the year ended December 31, 2019, representing an increase of approximately 7.4%. Such increase was in line with the increase in sales in the same proportion.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year ended December 31, 2019 amounted to approximately RMB1,075,3 million, representing an increase of approximately 7.2% compared to approximately RMB1,003.1 million for the year ended December 31, 2018. The increase in gross profit was due to sales increase with the strategy of maintaining the overall gross profit margin level at about 19.2%.

The gross profit margin of the Group remains stable at approximately 19.2% for the year of 2019 compared with 19.3% for the year of 2018.

Other Income

The Group's other income for the year ended December 31, 2019 amounted to approximately RMB39.2 million, slightly down by approximately RMB0.6 million from approximately RMB39.8 million for the year ended December 31, 2018. The decrease was mainly due to decrease in the income from government grants from approximately RMB17.6 million for the year ended December 31, 2018 to approximately RMB8.7 million. Income from sales of scraps for the year ended December 31, 2019 increased from approximately RMB22.2 million for the year ended December 31, 2018 to approximately RMB30.5 million, mainly due to the increase in production volume.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased from approximately RMB301.1 million for the year ended December 31, 2018 to approximately RMB356.1 million for the year ended December 31, 2019, representing an increase of approximately 18.3%. The increase was primarily due to the corresponding increase in the variable selling expense due to the increase of 7.4% in sales volume and the increase in marketing costs.

Research and Development Expenses

The Group's R&D expenses increased from approximately RMB106.9 million for the year ended December 31, 2018 to approximately RMB125.5 million for the year ended December 31, 2019, representing an increase of approximately 17.4%. The increase was mainly attributable to the increase in the Group's investment in R&D, including additional remuneration and benefit expenses due to newly employed technical personnel.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB127.9 million and RMB116.2 million for the years ended December 31, 2019 and 2018 respectively, representing an increase of approximately 10.1%. Such increase was primarily due to increase in employee benefit expenses and increase in cost of Tire Production Base in Thailand in the early stage.

Other Gains/(Losses)

For the year ended December 31, 2019, the Group's other gains decreased by approximately RMB13.4 million from approximately RMB47.7 million for the year ended December 31, 2018 to approximately RMB34.3 million, mainly due to the decrease in foreign exchange gains compared to the same period last year. During the Reporting Period, other gains mainly included the gains of RMB18.8 million received from wealth management products and the gains of RMB15.5 million arising from exchange gain or loss and other factors.

Finance Income

For the years ended December 31, 2019 and 2018, the Group's finance income amounted to approximately RMB17.4 million and RMB8.2 million respectively. The increase of approximately 112.2% in finance income was due to increase in interest income from bank deposits.

Finance Costs

For the years ended December 31, 2019 and 2018, the Group's finance costs amounted to approximately RMB6.9 million and RMB12.8 million respectively. The decrease of approximately 46.1% in finance costs was mainly due to the impact of exchange rate changes and capitalization of interest.

Income Tax Expense

For the years ended December 31, 2019 and 2018, the Group's income tax expense amounted to approximately RMB70.3 million and RMB83.2 million, representing a decrease of approximately 15.5%. As a result of that the Company and its subsidiary, Prinx Chengshan (Hong Kong) Tire Limited, obtained the qualification of Chinese tax resident enterprise, the distribution of dividends from the PRC subsidiary to Prinx Chengshan (Hong Kong) Tire Limited and from Prinx Chengshan (Hong Kong) Tire Limited to the Company was no longer subject to withholding tax during the Reporting Period.

Profit for the Year

Profit for the year for the years increased by approximately RMB1.1 million from approximately RMB478.6 million for the year ended December 31, 2018 to approximately RMB479.7 million for the year ended December 31, 2019. Such increase was mainly due to increase in revenue.

Profit Attributable to Shareholders of the Company

Due to the above factors, for the year ended December 31, 2019, the profit attributable to shareholders of the Company amounted to approximately RMB479.7 million (2018: RMB478.6 million).

Total Comprehensive Income for the Year

Total comprehensive income for the year of the Group increased by approximately RMB21.8 million from approximately RMB468.4 million for the year ended December 31, 2018 to approximately RMB490.2 million for the year ended December 31, 2019. Such increase was mainly due to the exchange differences generated by entities with different functional currencies increased by approximately RMB20.7 million compared to 2018.

Liquidity and Financial Resources

The Group maintained a sound financial position. The Group's borrowing demand was not seasonal. As at December 31, 2019, the Group had approximately RMB1,038.4 million in cash and cash equivalents (including restricted cash), representing a decrease of approximately RMB430.9 million as compared to that as at December 31, 2018 of approximately RMB1,469.3 million, which was mainly due to the payment for capacity expansion project of Rongcheng and the Five Production Base in Thailand. For details about the currencies of the Group's cash and cash equivalents, please refer to Note 25 to the consolidated financial statements. As at December 31, 2019, the Group had approximately RMB357.0 million bank borrowings (2018: RMB350.0 million) denominated in RMB at fixed rates due by December 21, 2020. During the Reporting Period, the borrowings were used to meet the demand of expenses of export seller credit loan.

The current ratio as at December 31, 2019 was approximately 1.4 (2018: 1.7). During the Reporting Period, the Company purchased low-and medium-risk wealth management products to hedge risk while increasing financial returns.

Prepayments, Other Receivables and Other Current Assets

For the year ended 31 December 2019 and 2018, prepayments, other receivables and other current assets of the Group were RMB146.6 million and approximately RMB74.8 million, representing an increase of approximately 96.1%. This increase was mainly due to the growth in deductible tax affected by additional equipment purchases for the expansion.

Prepayments and Other Receivables of Non-Current Assets

For the year ended 31 December 2019 and 2018, the prepayments and other receivables of non-current assets of the Group were RMB44.1 million and approximately RMB13.0 million respectively, representing an increase of approximately 239.2%. This increase was mainly due to growth in prepayments of construction of property, plant and equipment.

Gearing Ratio

The gearing ratios as at December 31, 2019 and 2018 were not meaningful since there was no net liability. The ratios were calculated as net surplus/debt divided by total capital. Net surplus/debt was calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital was calculated as equity plus convertible and redeemable preferred shares on an as-if converted basis plus net surplus/debt, which was 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 has maintained a healthy liquidity position throughout the year ended December 31, 2019. 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, 2019, the Group's restricted cash balances which amounted to approximately RMB123.9 million (2018: RMB84.0 million) were pledged as security for the Group's notes payable it issued. Save for the above, the Group did not have any charges on its assets (2018: RMB293.7 million of property, plant and equipment were pledged as securing for the Group's bank borrowing).

Investment

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 to acquire a land plot located at Chonburi province, Thailand at a consideration of THB 806,060,888.60 (equivalent to approximately RMB170.6 million). The Company plans to build a Tire Production Base in Thailand on the land plot. The details of the transaction could be found in the announcement published by the Company dated December 27, 2018. As the maximum applicable percentage ratio with respect to the acquisition under the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") is above 5% but under 25%, the acquisition constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules subject to the requirements of announcement and reporting.

Located at 399 Moo.4, T. Nong Suea Chang, A. Nong Yai, Chonburi 20190, Thailand, the Tire Production Base in Thailand covers an aggregate gross floor area of 311,000 square meters with land title deeds nos. 4499, 4500, 4501, 4502, 4495, 4496 and 5659. Prinx Thailand is 100% interested in the Tire Production Base in Thailand whose principal business is the design, development, manufacture and distribution of radial tires products (such as radial tires for passenger cars, radial light truck, and radial heavy truck) and provision of technical support and services accordingly. During the Reporting Period, the Company invested a total of approximately RMB852 million in the construction of the Tire Production Base in Thailand. The construction of Tire Production Base in Thailand has begun in 2019, and all works are under progress in an orderly manner as scheduled. As at the date of this annual report, the project of construction of mixing workshop and all-steel production workshop plants and 90% of the construction of the semi-steel workshop is completed. As at the date of this annual report, the Company is processing the installation of key equipments such as internal mixer, calendar and composite extruder machine and installation of power equipment, thermal equipment and transformer and distribution equipment. The Company is expected to invest approximately RMB1,043 million in 2020 and to put all-steel and semi-steel projects into production by the end of June 2020.

Save as disclosed above, the Group did not have any other significant investments for the year ended 31 December 2019. Up to the date of this annual report, the Group does not consider participating in any other significant investments other than the Tire Production Base in Thailand.

RISKS AND UNCERTAINTIES

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

A substantial portion of the assets of the Group are currently located in the PRC and currently approximately 60% of the revenue is derived from operations in the PRC. Therefore, the operating results, financial position and prospects of the Group will be primarily 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 drivers, the Group's operations in the PRC might also be affected. Hence, the Group 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 Group may be exposed to risks of fluctuations in exchange rates arising from those factors. As revenue denominated in USD from overseas operations accounts for approximately 40.7% of the total revenue of the Group for the year ended December 31, 2019, mainly used in overseas purchase of raw material. The operation expenses of Prinx Thailand is mainly denominated in THB. Therefore, the Group is exposed to foreign exchange risks with respect to US dollars ("**USD**") and Thai Baht ("**THB**"). The occurrence of significant fluctuations in exchange rates will affect the results of the Group. Exchange rate fluctuations and market trends have always been a concern of the Group. In this regard, the Company will strengthen the supervision on foreign currency transactions as well as the scale of foreign currency assets and liabilities, and may manage the potential fluctuations in exchange rates by optimizing the settlement currency of export trades and utilizing exchange rate financial instruments and other proactive preventive measures. The Group and the Company may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the Reporting Period, the Group entered into currency swap contracts to mitigate the foreign exchange risk. As at December 31, 2019, these currency swap contracts were due.

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

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

In addition, on February 15, 2019, the US Department of Commerce issued the "Anti-dumping and Countervailing Security Duty" orders on Chinese truck and bus tires, pursuant to which levy anti-dumping and countervailing security duty became effective immediately on products related to truck and bus. Prinx Chengshan was ordered to pay a combined security rate of 42.16% of the anti-dumping and countervailing duty. On February 3, 2020, the US Department of Commerce issued a notice to launch the first administrative review process for anti-dumping and countervailing duty on imported truck and bus tires from the PRC. The investigation period of the anti-dumping review started from February 15, 2019 to January 31, 2020, and the investigation period of the countervailing review started from February 15, 2019 to December 31, 2019. If Prinx Chengshan is put on the review list by the U.S. prosecutor, the anti-dumping and countervailing security rates determined in the original trial may be adjusted. The Company learned from the US attorney that the US prosecutor did not list the Company as the subject of a countervailing and anti-dumping review investigation. However, in order to reduce the countervailing duty rate, the Company has initiated the countervailing review, and the countervailing security duty rate may be adjusted accordingly.

Uncertainty and trend of Sino-US trade war has brought uncertainties to the Company's overseas sales. Under such circumstances, the Company will continue to actively invest in and build the Tire Production Base in Thailand to avoid international trade barriers, so as to support the Group in the expansion of its international sales.

(IV) Risks in relation to overseas investments

During the Reporting Period, the Company had advanced the construction of its overseas production base. The Tire Production Base in Thailand is expected to be put into production in the second quarter of 2020, and the proportion of overseas business will be increased. The changes in local economy, politics, policies and laws in Thailand may affect changes in the investment environment and the construction period of the project. The construction of its overseas production base and its production may be affected by many factors, including any failure in completing projects 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. In light of this, the Company will take knowledge of the changes in the investment environment of the authorities in Thailand timely, and make arrangements in advance for construction progress, product certification, personnel, etc. At the same time, we will deploy the sales strategy plan in Thailand and steadily advance the financing plan for projects. All work is progressing steadily in accordance with the goals.

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 the PRC which have a significant impact on it, through the full cooperation between its legal department and the external legal advisors, and the Company's continuous and effective supervision.

CAPITAL STRUCTURE

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

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at December 31, 2019, the Group's capital commitment was approximately RMB399.5 million (2018: RMB57.3 million). The Group had no contingent liability that would result in a significant impact during the Reporting Period (2018: Nil).

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

Save as disclosed in the section headed "Investment", the Group did not have any other significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures during the Reporting Period.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OR CAPITAL ASSETS

On January 10, 2020, the Board approved the Company's annual financial budget for 2020 which covers the Company's normal capital expenditure for renovation and the 1.2 million sets of planned construction projects of all steel phase II of the Tire Production Base in Thailand. The investment in the construction projects is expected to be approximately RMB541 million, and the source of the funds is profit surplus and bank loans. The expansion project will be implemented after the first phase of the Tire Production Base in Thailand is put into production and subject to review and approval of the Board.

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, 2019, the Group had a total of 4,937 employees (December 31, 2018: 4,502). The employee benefit expenses of the Group were approximately RMB459.4 million for the year ended December 31, 2019 (2018: RMB429.7 million).

Remuneration paid by the Group to its employees is determined according to their positions, skills, qualifications, personal performance and market standards at that time. According to the market supply and demand of such positions and referring to market standards, regular salary adjustment is made to stimulate employees' motivation. Discretionary bonuses are paid to employees based on the performance of each individual as a praise and repayment for their contributions. We have implemented and will continue to implement various schemes and incentives recognized by our employees.

To attract, retain, motivate and encourage the employees to contribute to creating values for the Company and shareholders of the Company (the "**Shareholders**"), the Group established training institute and cooperated with a number of colleges and universities including Qingdao University of Science & Technology, Harbin University of Science and Technology and Weihai Ocean Vocational College to cultivate talents and jointly build high-quality talent training base and skill training base. The Group also provided training courses to the employees to develop their skills, because the relevant skills are required by the Group to meet the Company's target, customer demand, custodial and regulatory requirements and contractual obligations. The full-time employees (except for independent contractors) also enjoy various employee benefit plans.

The Company adopted a share option scheme (the "**Share Option Scheme**") on July 5, 2019 (the "**Adoption Date**"). Details about the Company's adoption of the Share Option Scheme and grant of share options are set out in the section headed "Share Option Scheme" in Directors' Report to this annual report.

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

EXECUTIVE DIRECTORS

Mr. Che Baozhen (車寶臻先生), aged 37, 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 (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 14 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 Beijing (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 50, 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* (上海外高橋保税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 admitted as a nonpracticing certified accountant by the Chinese Institute of Certified Public Accountants ("**CICPA**") in 1995. Mr. Shi was recognized as a Senior International Finance Manager ("**SIFM**") by the International Financial Management Association in December 2011. He was awarded with the first stage of Shandong 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. 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.

Ms. Cao Xueyu (曹雪玉女士), aged 49, was appointed as Director on March 5, 2018. Ms. Cao was also appointed as a joint company secretary of the Company on March 29, 2019. She joined the Group as a director of Prinx 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 CIMA 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 63, 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 the PRC. 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 20 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 41, 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. On December 28, 2014, he joined the Group as a director of Prinx (Shandong) Tire until October 15, 2015. Mr. Wang is responsible for providing professional opinion and judgment to the Group. Prior to joining the Group, he was employed as vice section chief of the reception section of the general manager office by Shandong Chengshan Tires Company Limited (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. Wang was honoured as a 2012 new Long March Raiders of Weihai City (2012年度威海市新長征突擊手) by Weihai Communist Youth League in December 2013.

Mr. Shao Quanfeng (邵全峰先生), aged 36, was appointed as a non-executive Director on February 24, 2020. In July 2007, Mr. Shao served as a general accountant of group finance department of China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司). In May and November 2012, Mr. Shao served as a trainee assistant of the general manager of sales department of China Heavy Truck Group Ji'ning Commercial Truck Co., Ltd.* (中國重汽集團濟寧商用車有限公司) and a trainee assistant of the general manager of specialized vehicles segment of China Heavy Truck Group, respectively. In July 2014, he was appointed as the finance manager of Sinotruk (Hong Kong) Capital Holding Limited. In August 2018, he became the first level business supervisor of finance department of China Heavy Truck Group International Co., Ltd.* (中國重汽集團國際有限公司). In December 2018, he served as the managing director of Sinotruk (Hong Kong) International Investment Limited.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Xuehuo (張學伙先生), aged 57, 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 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 has engaged in investment industry for nearly 30 years, and has extensive experience in overseas mining resources, energy, real estate, biomedical, and health industries.

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 57, 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 about 35 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, a fellow member of the Association of Chartered Certified Accountants, a fellow Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors.

Mr. Choi is now a committee member of Small and Medium Practitioners Committee, Professional Conduct Committee, and a number of Investigation Panel of the Hong Kong Institute of Certified Public Accountants. He has also been a council member of Hong Kong Chiu Chow Merchants Mutual Assistance Society Limited since October 2013. He was a council member of the Society of Chinese Accountants and Auditors from 2010 to 2015. 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 60, 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 (青島科技大學) since December 2016. In November 2015, Mr. Wang was appointed as the distinguished expert by Taishan Scholars. Mr. Wang was a teacher of the mechanical faculty in Shandong Institute of Chemical Engineering from July 1982 to September 1984. Mr. Wang has been working at Qingdao University of Science & Technology (previously known as Qingdao Institute of Chemical Technology) (the "**University**") since September 1984. From September 1984 to November 1984, Mr. Wang was a teacher in mechanical engineering faculty at the University. During the period between November 1984 and June 1995, he was the vice office manager of the chemical machinery faculty at the University. From June 1995 to December 1995, he acted as the vice-manager of the mechanical engineering faculty. Mr. Wang was promoted to the position of vice-principal of the machinery engineering faculty in December 1995, In March 2002, he was further promoted to the vice-principal of the electromechanical engineering faculty of the University. From April 2004 to December 2016, Mr. Wang was the head of the electromechanical engineering faculty of the University before he was promoted to the current position.

Mr. Wang obtained a doctor degree in chemical process mechatronic engineering from School of Electromechanical Engineering of Beijing University of Chemical Technology, 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). In August 2019, Mr. Wang was granted the title of "the Doctor of the Chemical Industry and Engineering Society of China (CIESC)" by the CIESC. In September 2019, he was granted the medal in commemoration of the 70th anniversary of the PRC by China's Central Military Commission respectively.

SENIOR MANAGEMENT

Mr. Qu Xuexin (曲學新先生), aged 57, 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 the PRC 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 53, 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 in December 2016 before Mr. Ju was appointed to the current position, and he 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 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. Jiang Xizhou (姜錫洲先生), aged 48, has been our Company's vice-general manager since January 2020. He joined our Company in August 2019 as the assistant of general manager. Mr. Jiang is responsible for the overall management of research and development center, manufacturing center, equipment productivity center, and QEHS center. Prior to joining the Group, Mr. Jiang held various technical and management positions at Giti Tire (Anhui) Company Ltd. from July 1995 to May 2013. During the period between June 2013 and June 2015, he served as the general manager of Giti Tire (Fujian) Co., Ltd. and Giti Tire Corporation, a company listed on the Shanghai Stock Exchange. From July 2015 to August 2017, he was the general manager of Giti Tire (Anhui) Company Ltd. Mr. Jiang served as the manufacturing director of Giti Tire (China) Investment Company Ltd. from September 2017 to July 2019.

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

Mr. Liu Changbo (劉昌波先生), aged 55, 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. Wang Yu (王�先生), aged 46, 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 36, 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 49, 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.

JOINT COMPANY SECRETARIES

Ms. Cao Xueyu (曹雪玉女士), is one of executive Directors. She is also the joint company secretary of our Company.

Ms. Lam Yuk Ling (林玉玲女士), is the other joint company secretary of our Company. She is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. 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.

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended December 31, 2019.

LISTING ON THE HONG KONG STOCK EXCHANGE

The ordinary shares of the Company (the "**Share(s)**") 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 the Group. 135,000,000 ordinary 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 the Group to support its growth and expansion. As at the Listing Date, the share capital of the Company was USD31,750, divided into 635,000,000 ordinary shares of USD0.00005 each.

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised from the Listing were approximately HK$738.4 million (after deducting listing expenses), which are intended to be utilized in the manner in the proposed reallocation (the "**Reallocation**") as disclosed in the announcement of the Company dated May 20, 2019 (the "**Reallocation Date**").

The Group had utilized approximately HK$738.4 million of the net proceeds as at December 31, 2019. The utilized net proceeds during the Reporting Period were approximately RMB604.1 million and the proceeds from the Listing were utilized in full.

As at December 31, 2019, the net proceeds had been utilized as follows:

USE OF PROCEEDS	Original allocation HK$ million	Reallocation HK$ million	Unutilized amount as at Reallocation Date HK$ million	Utilized amount during the Reporting Period HK$ million	Unutilized amount as at December 31, 2019 HK$ million
Investment in the first phase of All Steel Radial Tires capacity expansion	34.7	34.7	0	0	0
Investment in the second phase of All Steel Radial Tires capacity expansion	264.3	0	264.3	0	0
Expansion of Semi-Steel Radial Tires production capacity	146.2	146.2	97.4	97.4	0
Overseas investment	221.5	485.8	201.2	465.5	0
Working capital	71.7	71.7	41.2	41.2	0
Total	738.4	738.4	604.1	604.1	0

1. During the Reporting Period, the construction work of the Tire Production Base in Thailand commenced, and all tasks were being carried out in an orderly manner according to their schedule. As at December 31, 2019, the project of construction of the mixing workshop, all-steel production workshop plants and 90% of the construction of the semi-steel workshop was completed. Currently, the Company is processing the installation of key equipments such as internal mixer, calendar and composite extruder machine and installation of power equipment, thermal equipment and transformer and distribution equipment. The Company is expected to put all-steel and semi-steel projects into production by the end of June 2020.

During the Reporting Period, the use of proceeds from the Listing was in compliance with the Reallocation plan of the Company and there had been no material changes or delays.

SHARE OPTION SCHEME

The Company had adopted the Share Option Scheme on the Adoption Date. The Share Option Scheme aims to attract, retain and provide incentives to senior and mid-level management and key employees of the Company, to provide them with the opportunity to obtain shares of the Company and to link their interests closely to the operating results and share performance of the Company with a view to increasing the value of the Company and to attracting human resources that are valuable to the Group. The number of Shares issuable pursuant to the Share Option Scheme will be 16,000,000 Shares, being approximately 2.5% of the total number of Shares in issue on the date of this annual report.

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

On July 9, 2019 (the "**Grant Date**"), the Company conditionally granted 14,400,000 options (the "**Options**" and each an "**Option**") to certain eligible participants (the "**Grantees**" and each a "**Grantee**") of the Group, subject to acceptance of the Grantees, to subscribe for a total of 14,400,000 ordinary shares of USD0.00005 each in the share capital of the Company. The exercise price of the Share on Grant Date was HK$7.244 per Share, which is the highest among (i) the closing price of HK$7.130 per Share on the Grant Date; (ii) the average closing price of HK$7.244 per Share for the five business days immediately preceding the Grant Date; and (iii) the nominal value of each Share. The closing price for the business day immediately preceding the Grant Date was HK$7.22 per Share. Grantees may accept the offer for the grant of Options within 28 day after the date of such offer.

The aggregate number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and all options to be granted under any other share option scheme(s) of the Company shall not, in aggregate, exceed 10% of the total number of Shares in issue on the Adoption Date. The Company may seek approval of the Shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme, provided that, in the case of refreshed limit, the aggregate number of Shares which may be issued upon the exercise of outstanding Options granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

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

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

Name of Grantees	Position(s) held	Outstanding at the beginning of year	Number of Options granted as at the Grant Date	Lapsed during the year	Outstanding at the end of year
Che Baozhen	Executive Director	—	580,000	—	580,000
Shi Futao	Executive Director	—	512,000	—	512,000
Cao Xueyu	Executive Director and joint company secretary	—	225,500	—	225,500
		—	1,317,500	—	1,317,500
Other senior management and employees		—	13,082,500	—	13,082,500
Total:		—	14,400,000	—	14,400,000

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

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

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

As at the date of this annual report, the Share Option Scheme remains valid for about 5 years and 3 months. For the year ended December 31, 2019, no Options have been exercised, cancelled or lapsed under the Share Option Scheme.

For the year ended December 31, 2019, the valuation of Options granted is contained in Note 27 to the consolidated financial statements. The calculated value of Options may be subjective and subject to uncertainties, depending on the assumptions used in and limitations of calculation model.

Details of the Share Option Scheme are set out in the circular issued by the Company on June 13, 2019 and the announcement issued on July 9, 2019.

PROFIT SHARING SCHEME

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

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

PRINCIPAL BUSINESS

The Company is principally engaged in the manufacturing and sales of tire products in the PRC and other global markets. The analysis of the Group's principal business for the year ended December 31, 2019 is set out in Note 1 of the consolidated financial statements.

RESULT

The financial results of the Group for the year ended December 31, 2019 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 82 to 83 of this annual report.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK$0.2 per ordinary share before tax for the year ended December 31, 2019. This proposed final dividend is subject to the approval of the Shareholders at the annual general meeting (the "**AGM**") to be held on May 8, 2020, and will be paid on or about June 24, 2020 to those Shareholders whose names appear on the Company's register of members on May 19, 2020.

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China" (the "**Enterprise Income Tax Law**"), the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" and the "Notice of the SAT regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management", the Company is generally required to withhold and pay 10% enterprise income tax on the distribution of the final dividend to its non-resident enterprise shareholders. The withholding and payment obligation lies with the Company. In respect of all shareholders whose names appear on the Company's register of members as at the record date for determination of entitlement to the final dividend who are not individuals (including HKSCC Nominees Limited ("**HKSCC**"), other corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as non-resident enterprise shareholders), the Company will distribute the final dividend after deducting enterprise income tax of 10%. The Company will not withhold and pay the income tax in respect of the final dividend payable to any PRC resident enterprise shareholders, exempted entities or natural person shareholders whose names appear on the Company's register of members as at the record date for determination of entitlement to the final dividend.

If any resident enterprise (as defined in the Enterprise Income Tax Law) listed on the Company's register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold and pay the said 10% enterprise income tax, it shall lodge with Computershare Hong Kong Investor Services Limited documents from its governing tax authority confirming that the Company is not required to withhold and pay enterprise income tax in respect of the dividend to which it is entitled not later than 4:30 p.m. on May 13, 2020.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company's register of members on the record date for the dividend payment. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders or any disputes over the mechanism of withholding.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, May 5, 2020 to Friday, May 8, 2020 (both days inclusive), during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the AGM to be held on Friday, May 8, 2020, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, May 4, 2020.

Subject to the approval of Shareholders at the AGM, the proposed final dividend will be payable to Shareholders whose names appear on the register of members of the Company on Tuesday, May 19, 2020, being the record date for determination of entitlement to the final dividend. The register of members of the Company will be closed from Thursday, May 14, 2020 to Tuesday, May 19, 2020 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Wednesday, May 13, 2020.

DIVIDEND POLICY

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

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

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

BUSINESS REVIEW

I. Review of the Company's Business

The Group is principally engaged in the R&D, 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, differential competition and global operation, and focused on the improvement of the industry chain in order to respond to customers' demand in a systematic, professional and rapid manner and to create value for them. Prinx Chengshan emphasizes on safety, environmental protection, integrity and mutual benefits, and is a company of green development with strong sense of social responsibility.

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

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

	Year ended December 31			
Financial indicators	**2019**	**2018**	**2017**	**2016**
Revenue growth rate(1)	7.4%	7.6%	26.7%	8.5%
Net profit increase rate(2)	0.2%	175.7%	–40.4%	78.5%
Gross profit margin(3)	19.2%	19.3%	15.9%	21.7%
EBIT margin(4)	9.7%	10.9%	4.5%	9.4%
Net profit margin(5)	8.6%	9.2%	3.6%	7.6%
Return on equity(6)	14.9%	20.6%	11.2%	21.2%
Return on total assets(7)	8.7%	10.4%	4.5%	8.5%
Asset-liability ratio(8)	41.4%	42.1%	59.7%	60.1%
Trade receivables turnover days(9)	63	68	66	68
Inventory turnover days(10)	58	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 = (annual profit attributable to Shareholders for the period/average equity attributable to Shareholders as at the beginning and end of the period) *100%;

(7) Return on total assets = (net profit for the period/average total assets 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 2019, the Group's revenue increased by approximately 7.4% year on year and the Group's net profit increased by approximately 0.2% year on year. In 2019, the Company recorded a profit before income tax of approximately RMB550.0 million, and if no exchange gain or loss had been taken into account, the profit before income tax during the Reporting Period would have decreased by approximately 2.1% year on year. Such decline in profitability was mainly attributable to increase in management fees resulting from increase in marketing cost, employee benefit expense, R&D cost and the investment in Tire Production Base in Thailand in early stage. The asset-liability ratio of the Company as at December 31, 2019 decreased by approximately 0.7 percentage points year on year. During the past three years, the asset-liability ratio of the Company had dropped continuously and the Company had maintained sufficient liquidity and strong solvency. The trade receivables turnover days remained at around 66 days in the past three years, and the inventory turnover days remained at around 59 days in the past three years, a decrease of 18 days, 17 days, 17 days respectively 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

Given the NCP Epidemic in the PRC since January 2020, the Company implemented a series of measures, such as epidemic prevention and control, delay of work resumption, in accordance with the requirements issued by the central and local governments regarding the NCP Epidemic prevention and control, to ensure the health and safety of our customers and employees. The Board attaches great importance to the development of the NCP Epidemic, and make its best efforts in the NCP Epidemic prevention and control in the operating management in each process of the Group, such as production, sales and transportation. Since January 2020 and as of the date of this annual report, the Group's output remained stable compared with the same period last year, and domestic sales were greatly affected by epidemic control in the short term. It is expected that the domestic market will recover by the end of March 2020 and will see a sales peak later. The inventory held by the Group in the early stage will greatly support domestic sales. The Group dispatched its resources in a timely manner and focused on ensuring the sales of international marketing channels. At present, international orders are relatively abundant and its output has increased year on year.

The epidemic has spread globally, bringing uncertainties to the future sales of international marketing channels of the Group. As the Group has a smaller number of export orders to the countries which were greatly affected, such as Italy, Japan, and South Korea, the impact of the epidemic on the Group is not obvious yet, but is still subject to observation. In light of this, the Group improves its ability of timely delivery of confirmed orders to avoid cancellation of customer's orders due to the spread, while increasing sales to countries with slight or no epidemic to cope with the impact across the world. In addition, the Group will always pay attention to overseas epidemic situation, keep close contact with customers in countries with high risks of epidemic, obtain market trends, and adjust market strategies in a timely manner.

Currently the construction of the Tire Production Base Thailand is in the critical period. In order to ensure the orderly development of the project and the safety of personnel, Prinx Thailand has set up a special epidemic prevention team to measure the temperature of the staff every day and disinfect the workplace regularly, records the health status, and keeps dynamic monitoring throughout the process. The outbreak of epidemic has not affected the construction of the Tire Production Base Thailand, and there are no cases of human infection.

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

III. Corporate Development Strategy

(I) Company planning

1. The Group strictly adheres 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. The Group focuses on customers, markets, uses sales objectives as evaluation tools, and concentrates on six strategic dimensions of marketing, R&D, production, team, system and mode, to build an international first-class tire manufacturer.

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

4. The Group selects the right brand positioning, excels in brand building, establishes a brand system based on the brand "Prinx Chengshan", and builds a brand premium capacity based on core products.

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

6. The Group broadens the channels of staff growth, pays attention to the happiness index of employees, and endeavors 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 the PRC automobile ownership, together with the introduction of relevant national policies to reconstruct the industrial structure and optimize the industrial layout, which have regulated the production order of the industry, the tire industry has been promoted, and thus brings opportunities for the development of the Company.

2. 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

The Group is 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. The Group generates 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. Outlook

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

VI. Risks and Uncertainties and Compliance with relevant laws and regulations

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

FINANCIAL 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 five 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, 2019, the transaction amounts to the Group's top five customers accounted for approximately 20.3% (2018: 27.6%) of the Group's total revenues while the transaction amounts to the Group's single largest customer accounted for approximately 5.5% (2018: 10.0%) of the Group's total revenues.

Major Suppliers

For the year ended December 31, 2019, the transaction amounts to the Group's top five suppliers accounted for approximately 34.6% (2018: 26.1%) of the Group's total purchases while the transaction amounts to the Group's single largest supplier accounted for approximately 14.5% (2018: 9.0%) of the Group's total purchases.

During the Reporting Period, save as disclosed in Note 37 to the consolidated financial statements, none of the Directors, any of their close associates or any Shareholders (which to the knowledge of the Directors owned more than 5% of the number of the issued shares of the Company) was interested in the top five customers or suppliers of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 17 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 26 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 28 and 40 to the consolidated financial statements respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

As at December 31, 2019, the Company's reserves available for distribution amounted to approximately RMB2,182.1 million (as at December 31, 2018: RMB2,301.2 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2019 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
Shi Futao
Cao Xueyu

Non-executive Directors:

Che Hongzhi
Wang lei
Shao Quanfeng *(appointed on February 24, 2020)*
Chen Yansheng *(resigned on February 24, 2020)*

Independent non-executive Directors:

Zhang Xuehuo
Choi Tze Kit Sammy
Wang Chuansheng

Ms. Cao Xueyu, Mr. Wang Lei and Mr. Wang Chuansheng shall retire by rotation, and offer themselves for re-election at the AGM in accordance with Article 108 of the Articles of Association.

Mr. Shao Quanfeng shall hold office until the first general meeting of the Company after the his appointment and shall be re-elected at that meeting in accordance with Article 112 of the Articles of Association.

Details of the Directors to be re-elected at the AGM are set out in the circular to Shareholders dated April 3, 2020.

Mr. Chen Yansheng has resigned from his position as a non-executive Director of the Company on February 24, 2020.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 27 to 35 of this annual report.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors are independent for the year ended December 31, 2019.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

EMOLUMENT POLICY

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

In remuneration determination for Directors and senior management, the Board will take into account remuneration level of comparable companies, time required and their responsibilities, employment terms for other position in the Group, individual performance of each Director and the performance of the Company.

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.

SHARE-BASED AGREEMENTS

Save as disclosed regarding to "Share Option Scheme" in this annual report, no share-based agreements were entered into or still valid during the Reporting Period.

CHANGES OF INFORMATION IN RELATION TO THE DIRECTORS

Save as disclosed regarding to "Changes of Company Secretary's Information" in this annual report, 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.

CHANGES OF COMPANY SECRETARY'S INFORMATION

Changes of Company Secretary's information of the Company during the Reporting Period are set out below:

Company Secretary	Change
Cao Xueyu	The Board has appointed Ms. Cao Xueyu, an executive Director, as the joint company secretary of the Company with effect from March 29, 2019.

Details of the change were set out in the announcement issued by the Company on March 29, 2019.

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

As at December 31, 2019, 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	441,859,500 *(Note 1)*	Long position	69.58
Mr. Che Baozhen	Interest in a controlled corporation	441,859,500 *(Note 2)*	Long position	69.58
	Beneficial owner	580,000 *(Note 3)*	Long position	0.09
Mr. Shi Futao	Beneficial owner	542,000 *(Note 4)*	Long position	0.09
Ms. Cao Xueyu	Beneficial owner	225,500 *(Note 5)*	Long position	0.04

Notes:

(1) Mr. Che Hongzhi is the spouse of Ms. Li Xiuxiang. As such, he is deemed to be interested in all the Shares in which Ms. Li Xiuxiang are interested.

(2) As at December 31, 2019, Mr. Che Baozhen directly owned 50% of the equity interest in Shanghai Chengzhan Information and Technology Center* (上海成展信息科技中心) ("**Shanghai Chengzhan**"), which in turns owned 95% of the equity interest in Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司) ("**Beijing Zhongmingxin**"), which in turns owned 42.50% of the equity interest in Chengshan Group. As such, Mr. Che Baozhen, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests in Chengshan Group.

(3) As at December 31, 2019, Mr. Che Baozhen held interests in those Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.

(4) As at December 31, 2019, Mr. Shi Futao held interests in 512,000 Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.

(5) As at December 31, 2019, Ms. Cao Xueyu held interests in those Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.

Save as disclosed above, as at December 31, 2019, 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 year ended December 31, 2019 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, 2019, 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 (Hong Kong) Capital Holding Limited	Beneficial owner	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%
Sinotruk (BVI) Limited	Interest in a controlled corporation	63,400,000 *(Note 1)*	Long position	9.98%

Name	Capacity/ Nature of interest	Number of shares	Long/Short position	Approximate percentage of shareholding in the Company
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%
Chengshan Group	Beneficial owner	441,859,500 *(Note 2)*	Long position	69.58%
Beijing Zhongmingxin* (北京中銘信)	Interest in a controlled corporation	441,859,500 *(Note 2)*	Long position	69.58%
Shanghai Chengzhan* (上海成展)	Interest in a controlled corporation	441,859,500 *(Note 2)*	Long position	69.58%
Ms. Li Xiuxiang	Interest in a controlled corporation	441,859,500 *(Note 2)*	Long position	69.58%
Ms. Bi Wenjing	Spouse interest	442,439,500 *(Note 3)*	Long position	69.67%

* For identification purpose only

Notes:

(1) As at December 31, 2019, China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司) owned 100% of the interests of Sinotruk (BVI) Limited, which in turns owned 51% of the issued share capital of Sinotruk (Hong Kong) Limited. Sinotruk (Hong Kong) Limited owned 100% of the issued share capital of Sinotruk (Hong Kong) International Investment Limited, which in turns owned 100% of the issued share capital of Sinotruk (Hong Kong) Capital Holding Limited, which in turns owned 63,400,000 Shares. 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) As at December 31, 2019, Ms. Li Xiuxiang directly owned 50% of the equity interest in Shanghai Chengzhan, which owned 95% of the equity interest in Beijing Zhongmingxin, which in turns owned 42.50% of the equity interest in Chengshan Group. As such, Ms. Li Xiuxiang, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests in Chengshan Group.

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

Save as disclosed above, as at December 31, 2019, 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.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

For the year ended December 31, 2019, none of the Company or 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.

TAX REDUCTION

According to the laws of the Cayman Islands, there is currently no taxes levied on individuals or corporations by reason of holding of the Company's shares based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

NON-COMPETITION UNDERTAKING

Chengshan Group, Mr. Che Hongzhi, the chairman of the Board and 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* (榮成東晟房屋租賃有限公司), Beijing Zhongmingxin* (北京中銘信), Rongcheng Chengyuan Shareholding Investment Centre* (榮成成源股權投資中心), Rongcheng Hongsheng Shareholding Investment Centre* (榮成鴻昇股權投資中心), Rongcheng Chengda Shareholding Investment Centre* (榮成成大股權投資中心), Rongcheng Chenghai Shareholding Investment Centre* (榮成成海股權投資中心), Rongcheng Pucheng Shareholding Investment Centre* (榮成浦成股權投資中心), Rongcheng Haocheng Shareholding Investment Centre* (榮成浩成股權投資中心) and Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司) (the "**Deed of Non-Competition Parties**") as then controlling shareholders of the Company entered into the Deed of Non-Competition ("**Deed of Non-Competition**") on September 10, 2018, pursuant to which the Deed of Non-Competition Parties have, irrevocably and unconditionally, undertaken to and covenanted with the Group during the control period that, he/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 Company's prospectus dated September 24, 2018 (the "**Prospectus**") for details of the Deed of Non-Competition.

* *For identification purpose only*

On June 19, 2019, Beijing Baichuantong Consultant Company Limited ("**Beijing Baichuantong**") transferred all of its 95% equity interests of Beijing Zhongmingxin to Shanghai Chengzhan. After the completion of such transfer, Mr. Che Baozhen and Ms. Li Xiuxiang each directly held 50% equity interests of Shanghai Chengzhan, and Shanghai Chengzhan held 95% equity interests of Beijing Zhongmingxin which in turn held 42.5% equity interests of Chengshan Group. Mr. Che Baozhen, Ms. Li Xiuxiang, Shanghai Chengzhan and Beijing Zhongmingxin are thereby deemed to be interested in Chengshan Group. Beijing Baichuantong ceases to be a controlling shareholder of the Company, while Shanghai Chengzhan becomes a controlling shareholder of the Company, and is a close associate of Mr. Che Baozhen and Ms. Li Xiuxiang as defined under the Deed of Non-Competition.

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, none of the Directors or their associates had any interest in any business which directly or indirectly compete or may compete with the businesses of the Group during the year ended December 31, 2019.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in the below sections headed "Related Party Transactions" and "Continuing Connected Transactions" and Note 37 to the consolidated financial statements, none of the relevant controlling shareholders of the Company or the subsidiaries of the Company directly or indirectly had any material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party for the year ended December 31, 2019.

RELATED PARTY TRANSACTIONS

Details of the related party transactions were set out in Notes 37 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, while other related party transactions do not constitute connected transactions.

The Board confirms that the Company has complied with the disclosure requirement under Chapter 14A of the Listing Rules for above related party transactions.

CONTINUING CONNECTED TRANSACTIONS

For the year ended December 31, 2019, the Group had the following continuing connected transactions:

Name of relevant connected persons	Connected relationship with the Group	Nature of transactions	Annual cap for the year ended December 31, 2019 *(RMB'000)*	Annual actual transaction amount for the year ended December 31, 2019 *(RMB'000)*
Chengshan Group	Chengshan Group is a Controlling Shareholder	Property leasing	8,000	7,803
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	Energy management	7,500	5,456
Rongcheng Chengshan Properties Co., Ltd. ("**Rongcheng Chengshan Properties**")	Rongcheng Chengshan Properties is wholly owned by Chengshan Group	Property services	5,300	5,009

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 for the year ended December 31, 2019. As for the rent amount, for the year ended December 31, 2019, the cap for these continuing connected transactions in total was RMB8.0 million, and the actual transaction amount for the year ended December 31, 2019 was approximately RMB7.8 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 nonexecutive Directors) therefore consider that it will benefit the Company for the Group to continue the transactions under the Property Services Agreement for the year ended December 31, 2019. As for the purchase amount, for the year ended December 31, 2019, the cap for these continuing connected transactions in total was RMB5.3 million, and the actual transaction amount for the year ended December 31, 2019 was approximately RMB5.0 million.

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

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

Pursuant to the Energy Management Framework Agreement, 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.

On May 20, 2019, Prinx (Shandong) Tire entered into a supplemental agreement to the Energy Management Framework Agreement (the "**Supplemental Agreement**") with Rongcheng Chengshan Energy-Saving Services, pursuant to which the parties agree that the annual caps of the energy-saving services provided for the two years ended/ending December 31, 2019 and December 31, 2020 shall be revised to RMB7.5 million and RMB10.6 million respectively.

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

The Group will continue to purchase energy-saving services from Rongcheng Chengshan Energy-Saving Services through the transactions contemplated under the Energy Management Framework Agreement. Prinx (Shandong) Tire will be able to pay the investment cost of its energy 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 for the year ended December 31, 2019. As for the purchase amount, for the year ended December 31, 2019, the annual cap for these continuing connected transactions shall be revised to RMB7.5 million and the actual transaction amount for the year ended December 31, 2019 was approximately RMB5.5 million.

Please refer to the announcement issued on May 20, 2019 by the Company for the details of the revised annual cap of continuing connected transactions.

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

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

During the Reporting Period, the independent non-executive Directors had reviewed the above continuing connected transactions and 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 accordance with 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

For the year ended December 31, 2019, 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.

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

CHARITY DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to RMB180,000.

For the year ended December 31, 2019, the Company was 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

Resignation and appointment of non-executive Director on February 24, 2020

On February 24, 2020, the Board announced:

(i) Mr. Chen Yansheng resigned from the non-executive Director from that day; and

(ii) Mr. Shao Quanfeng was appointed as a non-executive Director on that day.

Details of the resignation and appointment of the non-executive Directors are set out in the announcement of the Company published on February 24, 2020.

Lapse of share options in February 2020

In February 2020, a total of 474,000 Options lapsed as a result of the Grantees' resignation or retirement from the Company.

The Facility Agreement Signed on March 17, 2020

On March 17, 2020, Prinx Thailand, as borrower, and Bank of China (Hong Kong) Limited, Bank of China (Thai) Public Company Limited and The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch, as mandated lead arrangers and original lenders, entered into a facility agreement (the "**Facility Agreement**") relating to US$90 million facility with a term of four years after the date of the Facility Agreement. Under the Facility Agreement, Prinx Thailand shall procure that Mr. Che Baozhen, Mr. Che Hongzhi and Ms. Li Xiuxiang to remain as the single largest shareholder of the Company, and to maintain management control over the Company. Details of the Facility Agreement are set out in the announcement of the Company published on March 17, 2020.

Other details of significant events occurring after the balance sheet date are set out in Note 39 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, 2019.

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 61 to 76 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, 2019. 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, March 20, 2020

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high standard of corporate governance through an effective board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency to all the Shareholders, to safeguard the interests of its Shareholders and enhance its value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own corporate governance code. The Company has been in compliance with all applicable code provisions under the Corporate Governance Code for the year ended December 31, 2019. The Company will continue to review and monitor its corporate governance practices in order to ensure 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 *(Chief Executive Officer)*
Shi Futao
Cao Xueyu

Non-executive Directors:

Che Hongzhi *(Chairman)*
Wang Lei
Shao Quanfeng *(appointed on February 24, 2020)*

Independent non-executive Directors:

Zhang Xuehuo
Choi Tze Kit Sammy
Wang Chuansheng

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

For the year ended December 31, 2019, 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 organizations 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 Reporting Period, all current Directors have received relevant training on corporate governance and regulatory issues, and have provided their training records. In view of the above, the Company considers that all Directors have complied with Code Provision A.6.5 of the Corporate Governance Code.

A summary of the continuous professional developments in relation to the business of the Group received by the Directors for the year ended December 31, 2019 is as follows:

Name of Directors	Training Format	Training Content
Executive Directors		
Che Baozhen	Training Courses/Forums	Corporate Governance/Laws and Regulations/Industry Related
Shi Futao	Training Courses/Seminars/ Conferences	Corporate Governance/Finance/Laws and Regulations/Industry Related
Cao Xueyu	Training Course/Workshops	Corporate Governance/Laws and Regulations/Finance
Non-executive Directors		
Che Hongzhi	Training Courses	Corporate Governance/Laws and Regulations/Industry Related
Wang Lei	Training Courses	Corporate Governance/Laws and Regulations/Industry Related
Chen Yansheng *(Resigned on February 24, 2020)*	Training Courses	Corporate Governance/Laws and Regulations/Industry Related
Independent Non-executive Directors		
Zhang Xuehuo	Training Courses	Corporate Governance/Laws and Regulations
Choi Tze Kit Sammy	Training Courses/Seminars/ Conferences	Corporate Governance/Laws and Regulations/Finance
Wang Chuansheng	Training Courses/Forums/ Conference	Corporate Governance/Industry

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision 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 (the "**Chairman**") 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 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 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.

Mr. Che Hongzhi and Mr. Wang Lei, both being the non-executive Directors, have entered into a service contract with the Company for a term of three years commencing from October 9, 2018, and are subject to termination in accordance with the requirements of the service contract.

Mr. Shao Quanfeng, the non-executive Director, has entered into a service contract with the Company for a term of three years commencing from February 24, 2020, and is 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, and are 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 AGM in accordance with Articles 108 and 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 AGM 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 AGM.

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 enquiries have been made to all the Directors and each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended December 31, 2019.

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 policies and practices, and make recommendations and report on related issues to the Board;

(e) review the Company's compliance with the corporate governance code 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 being 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 reviewing and monitoring 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 2019 was as follows:

- Review the report on the 2019 audit plan;

- Review the 2018 annual financial report;

- Review the 2019 interim results report;

- Discuss tax compliance matters; and

- Discuss the Company's internal control and risk management system.

The Audit Committee has reviewed the audited consolidated financial statements for the year ended December 31, 2019.

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

The main work of the Nomination and Remuneration Committee in 2019 was as follows:

- Review the structure, size, and composition of the Board;
- Review the Board's diversity policy;
- Review the remuneration of directors and senior management of the Company in 2018;
- Review the remuneration policy and structure of the Company's Directors and senior management in 2019; and
- Discuss and review the Company's share option schemes and profit sharing schemes.

REMUNERATION OF DIRECTORS

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

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of senior management of the Company (whose biographies are set out on pages 27 to 35 of this annual report) for the year ended December 31, 2019 falls under the following bands:

Band of Remuneration	
Within HK$500,000 (approximately RMB428,028)	0
HK$500,001-HK$1,000,000 (approximately RMB428,029-RMB856,055)	4
HK$1,000,001-HK$1,500,000 (approximately RMB856,056-RMB1,284,083)	3

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 characterized 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. Wang Chuansheng and Mr. Zhang Xuehuo 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, 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 of resources, staff qualifications and experience, training programs, 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 2019 was as follows:

- Conduct 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;
- Give advice on the Company's compliance management and risk management policies;
- Discuss and review the Company's proposal on changing the use of proceeds;
- Discuss and review the Company's report on the next three-year strategic planning;
- Discuss and review the Company's continuing connected transactions with Rongcheng Chengshan Energy-Saving Services; and
- Review and approve the Company's adjustments to the capital expenditure budget in 2019.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

For the year ended December 31, 2019, the Company held eight Board meetings, three Audit Committee meetings, two Nomination and Remuneration Committee meetings, three Development Strategy and Risk Management Committee meetings, one AGM, and one extraordinary general meeting.

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held for the year ended December 31, 2019 is set out in the table below:

Name of Director	Board	Audit Committee	Nomination and Remuneration Committee	Development Strategy and Risk Management Committee	AGM	Extraordinary General Meeting
Mr. Che Baozhen	8/8		2/2		1/1	1/1
Ms. Cao Xueyu	8/8				1/1	1/1
Mr. Shi Futao	8/8				1/1	1/1
Mr. Che Hongzhi	8/8			3/3	1/1	1/1
Mr. Wang Lei	8/8				1/1	1/1
Mr. Chen Yansheng *(Resigned on February 24, 2020)*[1]	0/8				0/1	0/1
Mr. Zhang Xuehuo	7/8	3/3	2/2	3/3	1/1	0/1
Mr. Choi Tze Kit Sammy	7/8	2/3	2/2		1/1	1/1
Mr. Wang Chuansheng	7/8	3/3		3/3	1/1	1/1

1 During the Reporting Period, Mr. Chen Yansheng authorized Mr. Shao Quanfeng as his alternate director to participate in one Board meeting regarding 2018 annual results and one interim Board meeting; Mr. Chen Yansheng authorized Mr. Cheng Zhiyuan as his alternate director to participate in three regular quarterly Board meetings and two interim Board meetings, and a written authorization had been issued to the Company and approved by the Board.

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2019 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 77 to 81 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, operational and other risks, etc. The Board acknowledges its responsibility for the Group's risk management and internal control systems, and is responsible for reviewing the effectiveness of such systems. The Audit Committee is responsible for the Group's internal audit function, including reviewing the Group's financial records, internal control procedures, and risk management systems. The Development Strategy and Risk Management Committee is authorized by the Board to continuously oversee the risk management (including the sanctions risk exposure) and implementation of relevant internal control systems of the Group. Under the supervision of the Board, the Group's management are responsible for designing and implementing the risk management and internal control system of the Group. Such systems are established to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

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

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

The Board performs an annual review of the Group's risk management and internal control systems. During the Reporting Period, the Board confirmed that the Group's risk management and internal control systems are adequate and effective after reviewing the effectiveness of the systems, which could effectively reduce the risks that may affect the Group to achieve its strategic objectives.

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, 2019 is as follows:

Type of services	Amount (RMB)
Audit services	2,000,000
Non-audit services (tax consulting)	1,916,000
Total	3,916,000

JOINT COMPANY SECRETARY

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

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

For the year ended December 31, 2019, Ms. Cao Xueyu and Ms. Lam Yuk Ling have 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 recognizes the importance of timely and non-selective disclosure of information on the Company for the Shareholders and investors to make informed investment decisions.

The AGMs provide opportunity for Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGMs to answer Shareholders' questions. The auditor will also attend the AGMs 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 Shareholder(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 (the "**Memorandum and Articles**") have been amended and restated, with effect from the Listing Date. No changes were made to the Memorandum and Articles during the Reporting Period.

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 82 to 164, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 2019, 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 32 (Provision for warranties) to the consolidated financial statements. As at 31 December 2019, the Group had warranty provisions amounted to RMB76 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 2019 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 2019, 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, 20 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	6	**5,588,988**	5,206,087
Cost of sales	9	**(4,513,714)**	(4,203,034)
Gross profit		**1,075,274**	1,003,053
Selling and distribution expenses	9	**(356,052)**	(301,069)
Administrative expenses	9	**(127,859)**	(116,229)
Research and development costs	9	**(125,459)**	(106,875)
Other income	7	**39,204**	39,813
Other gains/(losses) — net	8	**34,334**	47,682
Operating profit		**539,442**	566,375
Finance income	11	**17,370**	8,192
Finance costs	11	**(6,941)**	(12,787)
Finance costs — net	11	**10,429**	(4,595)
Share of result of associates		**133**	—
Profit before income tax		**550,004**	561,780
Income tax expense	12(a)	**(70,287)**	(83,180)
Profit for the year		**479,717**	478,600
Profit attributable to:			
— Shareholders of the Company		**479,717**	478,600
— Non-controlling interests		**—**	—
		479,717	478,600
Earnings per share for profit attributable to shareholders of the Company for the year			
— Basic (RMB)	13	**0.76**	0.90
— Diluted (RMB)	13	**0.76**	0.90

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Profit for the year		**479,717**	478,600
Other comprehensive income/(loss):			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences		**10,435**	(10,249)
Other comprehensive income/(loss) for the year, net of tax		**10,435**	(10,249)
Total comprehensive income for the year		**490,152**	468,351
Attributable to:			
— Shareholders of the Company		**490,152**	468,351
— Non-controlling interests		**—**	—
Total comprehensive income for the year		**490,152**	468,351

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

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Land use rights	16	—	103,932
Property, plant and equipment	17	2,464,015	1,372,590
Right-of-use assets	18	110,687	—
Intangible assets	19	48,950	58,142
Investment in associates		6,233	2,200
Prepayments and other receivables	24	44,111	12,979
		2,673,996	1,549,843
Current assets			
Inventories	21	755,191	671,579
Trade receivables	23	960,410	933,541
Prepayments, other receivables and other current assets	24	146,626	74,789
Financial assets at fair value through profit or loss	22	180,885	497,608
Amounts due from related parties	37(b)	72,740	59,739
Cash and cash equivalents	25	914,495	1,385,348
Restricted cash	25	123,905	83,973
		3,154,252	3,706,577
Total assets		5,828,248	5,256,420

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	26	**199**	199
Share premium	26	**2,171,942**	2,171,942
Reserves	28	**1,241,788**	873,942
		3,413,929	3,046,083
Non-controlling interests		**389**	(126)
Total equity		**3,414,318**	3,045,957
Liabilities			
Non-current liabilities			
Lease liabilities	18	**1,873**	—
Deferred income	33	**42,098**	39,946
Deferred tax liabilities	34	**47,945**	12,417
		91,916	52,363
Current liabilities			
Trade payables	30	**1,198,715**	1,113,699
Other payables and accruals	31	**597,173**	508,893
Contract liabilities	5	**46,431**	59,512
Lease liabilities	18	**8,808**	—
Provision for warranties	32	**76,221**	73,873
Amounts due to related parties	37(b)	**19,815**	28,800
Current income tax liabilities		**17,851**	23,323
Bank borrowings	29	**357,000**	350,000
		2,322,014	2,158,100
Total liabilities		**2,413,930**	2,210,463
Total equity and liabilities		**5,828,248**	5,256,420

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

The consolidated financial statements on pages 82 to 164 were approved by the Board of Directors on 20 March 2020 and were signed on its behalf.

Che Baozhen
Director

Shi Futao
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Equity attributable to shareholders of the Company					
		Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 26)	Reserves RMB'000 (Note 28)	Total RMB'000	Non-controlling interests RMB'000	Total equity 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		19	374,600	—	374,619	—	374,619
Issue of ordinary shares upon initial public offering		47	684,773	—	684,820	—	684,820
Cash dividends	14	—	—	(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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Equity attributable to shareholders of the Company					
		Share capital *RMB'000* *(Note 26)*	**Share premium** *RMB'000* *(Note 26)*	**Reserves** *RMB'000* *(Note 28)*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2019		199	2,171,942	873,942	3,046,083	(126)	3,045,957
Comprehensive income							
Profit for the year		—	—	479,717	479,717	—	479,717
Other comprehensive income							
Currency translation difference		—	—	10,435	10,435	—	10,435
Total other comprehensive income, net of tax		—	—	10,435	10,435	—	10,435
Total comprehensive income		—	—	490,152	490,152	—	490,152
Transactions with shareholders							
Acquisition of subsidiaries		—	—	—	—	498	498
Employee share option schemes — value of employee services	27	—	—	6,966	6,966	—	6,966
Cash dividends	14	—	—	(129,272)	(129,272)	—	(129,272)
Capital contributions by non-controlling interests of subsidiaries		—	—	—	—	17	17
Total transactions with shareholders		—	—	(122,306)	(122,306)	515	(121,791)
Balance at 31 December 2019		199	2,171,942	1,241,788	3,413,929	389	3,414,318

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	35(a)	**707,722**	940,801
Interest paid		**(13,497)**	(20,798)
Income tax paid		**(44,534)**	(102,216)
Net cash generated from operating activities		**649,691**	817,787
Cash flows from investing activities			
Purchases of property, plant and equipment		**(1,343,951)**	(297,557)
Investment in an associate		**(3,900)**	(2,200)
Proceeds from disposal of property, plant and equipment	35(b)	**4,108**	83
Purchase of intangible assets	19	**(2,063)**	(3,905)
Loans granted to a third party		**—**	(4,000)
Repayment of loans granted to a third party		**2,000**	—
Purchase of financial assets at fair value through profit or loss	22	**(2,898,670)**	(4,623,888)
Proceeds from disposal of financial assets at fair value through profit or loss	22	**3,228,670**	4,271,604
Acquisition of a subsidiary, net of cash and cash equivalents		**1,163**	27,042
Proceeds from dividend of financial assets at fair value through profit or loss	8	**4,759**	—
Disposal of a subsidiary, net of cash and cash equivalents		**—**	(53,759)
Interest received		**17,448**	7,288
Net cash used in investing activities		**(990,436)**	(679,292)

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Proceeds from issue of ordinary shares upon initial public offering		—	702,677
Proceeds from borrowings		357,000	350,000
Repayments of borrowings		(350,000)	(309,863)
Decrease in restricted cash pledged as security for bank borrowings		—	85,342
Loans granted from a related party	37(a)	612	—
Repayments of loans from related parties	37(a)	(4,191)	(102,792)
Payment of listing expenses		(1,647)	(40,830)
Payment of lease liabilities		(9,141)	—
Amounts due to non-controlling interests		—	23,654
Cash dividends paid	14	(132,256)	(165,268)
Capital contribution by non-controlling shareholders		17	—
Net cash generated from/(used in) financing activities		(139,606)	542,920
Net (decrease)/increase in cash and cash equivalents		(480,351)	681,415
Cash and cash equivalents at the beginning of year	25	1,385,348	687,998
Exchange gain on cash and cash equivalents		9,498	15,935
Cash and cash equivalents at the end of year	25	914,495	1,385,348

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 20 March 2020.

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 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation — Amendments to HKFRS 9
- Long-term interests in associates and joint venture — Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015–2017 cycle
- Plan amendment, curtailment or settlement — Amendments to HKAS 19
- Interpretation 23 Uncertainty over income tax treatments

The Group had to change its accounting policies following the adoption of HKFRS 16. 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 2019 and have not been early adopted by the Group are as follows:

Standards	Key requirements	Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	January 1, 2020
HKFRS3 (Amendments)	Definition of a Business	January 1, 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	January 1, 2020
HKFRS 17	Insurance contracts	January 1, 2021

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

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial information.

The Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.27.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 in each territory or region where the lease assets are located. The weighted average discount rate applied to the lease liabilities on 1 January 2019 was 3.9%.

(i) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	18,510
Less: Short-term leases recognised on a straight-line basis as expense	(1,357)
Low-value leases recognised on a straight-line basis as expense	—
	17,153
Discounted using the lessee's incremental borrowing rate at the date of initial application, lease liabilities recognised as at 1 January 2019	16,086
Add: Reclassification of land use rights	103,932
Right-of-use assets recognised as at 1 January 2019	120,018
Of which are:	
Current lease liabilities	7,259
Non-current lease liabilities	8,827
	16,086

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

(ii) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increased by RMB120,018,000
- Land use rights — decreased by RMB103,932,000
- Lease liabilities (current portion) — increased by RMB7,259,000
- Lease liabilities (non-current portion) — increased by RMB8,827,000

There was no impact on retained earnings on 1 January 2019.

(iv) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and;
- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

2 Summary of significant accounting policies (Continued)

2.3 Principles of consolidation and equity accounting

2.3.1 *Subsidiaries*

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

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

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

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

2.3.2 *Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.3.3 below), after initially being recognised at cost.

2.3.3 *Equity method*

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

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

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

2 Summary of significant accounting policies (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.3 *Equity method* (Continued)

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

2.3.4 *Changes in ownership interests*

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

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

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

2.3.5 *Business combination*

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

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

2 Summary of significant accounting policies (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.5 *Business combination* (Continued)

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

Acquisition-related costs are expensed as incurred.

The excess of the:

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

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

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

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

2.3.6 *Separate financial statements*

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

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

2 Summary of significant accounting policies (Continued)

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.

2.5 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 Summary of significant accounting policies (Continued)

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 land use rights were treated as prepayment for lease and recorded as land use rights separately in the consolidated statement of financial position before 1 January 2019. The land use rights were stated at historical cost less accumulated amortisation and impairment losses.

As disclosed in note 2.2, the Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications from land use rights to right-of-use asset arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019. Land use rights are amortised in the consolidated statements of profit or loss on a straight-line basis over the period of the rights under the accounting policy of lease (Note 2.27).

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.

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

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

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

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

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 Summary of significant accounting policies (Continued)

2.8 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3.5 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.

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

2 Summary of significant accounting policies (Continued)

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.

2.10 Financial assets

(i) Classification

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

- those to be measured at amortized cost.

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

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

See Note 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.

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

(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.

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.

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

(iii) Measurement (Continued)

Equity instruments

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

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains/(losses) — net in the consolidated 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.

(iv) Impairment

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

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

2.11 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 Summary of significant accounting policies (Continued)

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.

2.14 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.

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.

2 Summary of significant accounting policies (Continued)

2.17 Borrowings (Continued)

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

2.18 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 Summary of significant accounting policies (Continued)

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 and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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

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

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

(c) Offsetting

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

2 Summary of significant accounting policies (Continued)

2.21 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.

(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 Share-based payments

Share-based compensation benefits are provided to employees via the employee share option scheme. Information relating to this scheme is set out in note 27.

Employee share options

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

— including any market performance conditions (eg the entity's share price)

— excluding the impact of any service and non-market performance vesting conditions (eg profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

— including the impact of any non-vesting conditions (eg the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2 Summary of significant accounting policies (Continued)

2.23 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.

2.24 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.

2.25 Revenue recognition

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

Sales of products

Revenue from the sale of good directly to the customers is recognized at the point that the control of the 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).

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

Sales of products (Continued)

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

2.26 Interest income

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

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

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

2.27 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 January 2019. The new policy is described below and the impact of the change is set out in Note 2.2.

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

For the year ended 31 December 2018 and before, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2 Summary of significant accounting policies (Continued)

2.27 Leases (Continued)

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

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

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

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

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

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

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group had no assets held as lessor during the year ended 31 December 2019.

2.28 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;

2 Summary of significant accounting policies (Continued)

2.28 Research and development costs (Continued)

— there is an ability to use or sell the product;

— it can be demonstrated how the product will generate probable future economic benefits;

— adequate technical, financial and other resources to complete the development of the product are available; and

— the expenditure attributable to the product during its development can be reliably measured.

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

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

2.29 Dividend distribution

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

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 December 2018 and 2019, 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 losses/gains on translation of USD denominated cash and cash equivalent, trade receivables and trade payables in RMB functional currency subsidiaries. Details of the changes are as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Year ended:		
Post-tax profit (decrease)/increase		
— Weakened 5% against RMB	**(21,822)**	(30,908)
— Strengthened 5% against RMB	**21,822**	30,908

As at 31 December 2018 and 2019, 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	
	2019	2018
	RMB'000	*RMB'000*
Year ended:		
Other comprehensive income (decrease)/increase		
— Weakened 5% against RMB	**(65,409)**	(38,410)
— Strengthened 5% against RMB	**65,409**	38,410

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 2019, 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;
- 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;

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

- 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 and other receivables*

As at 31 December 2019, the Group has assessed that the expected credit loss rates for amounts due from related parties and other receivables were immaterial. Thus no loss allowance for these receivables was recognised.

(ii) *Trade receivables*

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2019 or 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

As at 31 December 2019 and 2018, the loss allowance for trade receivables was determined as follows.

	Current	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
31 December 2019						
Expected loss rate	0.9%	1%	20%	50%	100%	—
Gross carrying amount *(RMB'000)*	862,196	104,641	2,242	677	2,617	972,373
Loss allowance *(RMB'000)*	(7,513)	(1,046)	(448)	(339)	(2,617)	(11,963)
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)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

(ii) *Trade receivables* (Continued)

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

Note 23 also details the closing loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances.

(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 2019			
Bank borrowings	357,000	—	357,000
Interest payables for bank borrowings	10,637	—	10,637
Amount due to related parties	19,815	—	19,815
Trade payables	1,198,715	—	1,198,715
Other payables	453,495	—	453,495
Lease liabilities	8,808	1,873	10,681
	2,048,470	1,873	2,050,343
At 31 December 2018			
Bank borrowings	350,000	—	350,000
Interest payables for bank borrowings	12,500	—	12,500
Amount 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

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 total equity plus net surplus/debt.

The gearing ratios as at 31 December 2019 and 2018 were as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Bank borrowings *(Note 29)*	**357,000**	350,000
Less: Cash and cash equivalents *(Note 25)*	**(914,495)**	(1,385,348)
Restricted cash *(Note 25)*	**(123,905)**	(83,973)
Net surplus	**(681,400)**	(1,119,321)
Total equity	**3,414,318**	3,045,957
Total capital	**2,732,918**	1,926,636
Gearing ratio	**Not meaningful**	Not meaningful

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).

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2019 and 2018.

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products *(a)*	—	—	152,878	152,878
— Listed equity securities	28,007	—	—	28,007
	28,007	—	152,878	180,885
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

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 22 for disclosures of the changes in level 3 instruments for the years ended 31 December 2019 and 2018.

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

	Fair value at 31 December 2019 *RMB'000*	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	152,878	Expected yield rate	2.3%–3.75% (3%)	A change in the yield rate by 100 basis points would increase/decrease the fair value approximately RMB1,465,000.

	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 approximately RMB4,490,000.

4 Critical accounting estimates and judgments

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

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

(a) Useful lives of property, plant and equipment

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

(b) Income taxes and deferred tax assets/liabilities

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

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

(c) Provision for impairment of trade receivables

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

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

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

	Year ended 31 December	
	2019	2018
	Revenue	Revenue
	RMB'000	*RMB'000*
Mainland China	**3,313,181**	3,036,444
Americas	**675,801**	803,560
Asia (excluding Mainland China)	**599,375**	524,550
Africa	**508,870**	400,539
Middle East	**240,082**	198,838
Other countries	**251,679**	242,156
	5,588,988	5,206,087

5 Segment information (Continued)

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Mainland China	**1,717,767**	1,475,983
Thailand	**855,249**	—
Europe	**99**	472
Americas	**144**	38
Hong Kong	**1,443**	29
	2,574,702	1,476,522

No customer contribute 10% or more to the Group's revenue for the years ended 31 December 2019 and 2018.

	As at 31 December 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Contract liabilities	**46,431**	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 years ended 31 December 2019 and 2018 relates to carried-forward contract liabilities.

	Year ended 31 December 2019	Year ended 31 December 2018
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the 1 January 2019		
Sales of tire products	**59,512**	73,415

(iii) Unsatisfied contracts related to sales of tire products

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

6 Revenue

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue from customers and recognised at point in time		
Sales of tire products:		
— All steel radial tires	**4,247,999**	3,968,945
— Semi-steel radial tires	**1,123,382**	1,093,195
— Bias tires	**217,607**	143,947
	5,588,988	5,206,087

7 Other income

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Sales of scraps	**30,511**	22,230
Government grants	**8,693**	17,583
	39,204	39,813

8 Other gains/(losses) — net

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Gains on disposal of financial assets at fair value through profit or loss		
— Wealth management products	**14,074**	15,841
— Currency swaps	**—**	(1,159)
Dividend from financial assets at fair value through profit or loss	**4,759**	—
(Losses)/gains from fair value change of financial assets at fair value through profit or loss	**(797)**	703
Losses on disposal of property, plant and equipment *(Note 35(b))*	**(1,501)**	(3,270)
Net other foreign exchange gains	**15,855**	33,802
Others	**1,944**	1,765
	34,334	47,682

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	
	2019	2018
	RMB'000	*RMB'000*
Raw materials and consumables used	**4,061,707**	3,652,901
Change in inventories of finished goods and work in progress	**(101,104)**	(6,776)
Wages and salaries, social welfare and benefits, including director's emoluments *(Note 10)*	**459,399**	429,716
Depreciation *(Note 17)*	**174,902**	180,122
Depreciation of right-of-use assets *(Note 18)*	**12,442**	—
Amortisation *(Note 16,19)*	**11,255**	15,508
Transportation cost and storage expenses	**174,125**	146,498
Advertising expenses	**13,688**	14,465
Maintenance and repair	**50,866**	36,566
Export expenses	**48,221**	30,272
Provisions for warranty claims *(Note 32)*	**39,161**	34,003
Travel, conference and office expenses	**45,647**	42,360
Other levies	**32,075**	31,612
Listing expenses	**—**	26,723
Professional service fees	**13,347**	8,851
Property insurance premium	**7,780**	7,391
Service fees and commissions	**6,581**	11,888
Auditors' remuneration		
— Audit services	**2,000**	2,200
— Non-audit services	**1,916**	117
Provision for write-down of inventories *(Note 21)*	**2,966**	1,380
Provision for impairment of trade receivables *(Note 23)*	**1,321**	530
Rental and estate expenses	**5,998**	14,952
Other expenses	**58,791**	45,928
	5,123,084	4,727,207

10 Employee benefit expenses, including director's emoluments

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**378,509**	356,763
Pension, housing fund, medical insurance and other welfare benefits	**73,924**	72,953
Share-based compensation benefits	**6,966**	—
Total employee benefit expenses	**459,399**	429,716

(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 2019

Name of Director	Fees *RMB'000*	Salaries and bonus *RMB'000*	Pension, housing fund, medical insurance and other welfare benefits *RMB'000*	Share-based compensation benefits *RMB'000*	Total *RMB'000*
Executive directors					
Che Baozhen	308	1,579	82	283	2,252
Shi Futao	177	1,190	82	250	1,699
Cao Xueyu	444	—	16	110	570
Non-executive director					
Che Hongzhi	236	—	12	—	248
Independent non-executive directors					
Zhang Xuehuo	134	—	—	—	134
Choi Tze Kit, Sammy	161	—	—	—	161
Wang Chuansheng	108	—	—	—	108
	1,568	2,769	192	643	5,172

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

(b) Benefits and interests of directors (Continued)

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

(c) Directors' retirement benefits

There were no retirement benefits paid to any director for the year ended 31 December 2019 (2018: nil).

(d) Directors' termination benefits

There were no termination benefits paid to any director for the year ended 31 December 2019 (2018: nil).

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

For the year ended 31 December 2019, the Company provided no consideration to third parties for making available director's services (2018: 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 in favour of the directors as at 31 December 2019, or at any time for the year ended 31 December 2019 (2018: nil).

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

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

Save as disclosed in Note 37, 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 2019, or at any time for the year ended 31 December 2019 (2018: 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 2019 include 2 (2018: 2) directors, details of whose emoluments are reflected in the analysis shown in Note 10(b). Details of the total emoluments paid to the remaining 3 (2018: 3) highest paid employees for the year were as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**3,369**	3,283
Pension, housing fund, medical insurance and other welfare benefits	**68**	106
Share-based compensation benefits	**129**	—
Total employee benefit expenses	**3,566**	3,389

The emoluments fell within the following bands:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Emolument bands		
Within HKD1,000,000 (approximately RMB896,000)	**—**	—
HKD1,000,001 to HKD1,500,000 (approximately RMB896,000–RMB1,344,000)	**3**	2
HKD1,500,001 to HKD2,000,000 (approximately RMB1,344,000–RMB1,792,000)	**—**	1
	3	3

11 Finance costs — net

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Finance costs:		
— Interest expense on bank borrowings	**(13,439)**	(8,999)
— Interest expense on lease liabilities	**(625)**	—
— Foreign exchange losses on financing activities	**—**	(3,788)
	(14,064)	(12,787)
Less: amounts capitalised on qualifying assets	**7,123**	—
	(6,941)	(12,787)
Finance income:		
— Interest income derived from bank deposits	**17,370**	8,192
Finance costs — net	**10,429**	(4,595)

12 Taxation

(a) Income tax expense

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax	**30,784**	66,307
— Hong Kong and overseas profits tax	**3,975**	3,024
— PRC withholding tax	**—**	11,986
Deferred income tax *(Note 34)*	**35,528**	1,863
Income tax expense	**70,287**	83,180

(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.

12 Taxation (Continued)

(a) Income tax expense (Continued)

(ii) Hong Kong profits tax

The Company's subsidiaries, Prinx Chengshan (Hong Kong) Tire Limited and Prinx (Hong Kong) 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 2019 (2018: 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 2018 to 2019. As at 31 December 2019, the Group has unused tax losses of RMB5,059,000 (2018: RMB348,000) which can be carried forward against future taxable income for certain entities in the Mainland China and will expire within 5 years.

(iv) Other overseas profits tax

The Company's subsidiary, Prinx Chengshan Europe, s.r.o., incorporated in Slovakia, is subject to the tax rate of 21% for the year ended 31 December 2019 (2018: 21%).

No other overseas profits tax has been provided since these subsidiaries do not have assessable taxable profits for the year ended 31 December 2019.

(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%.

On 27 December 2019, the Company and its subsidiary, Prinx Chengshan (Hong Kong) Tire Limited has obtained the qualification of PRC tax residence enterprise, were also subject to CIT for the year ended 31 December 2019 and the distribution of dividends among Prinx Chengshan (Shandong) Tire Co., Ltd., Prinx Chengshan (Hong Kong) Tire Limited and the Company shall not subject to WHT from 2019.

12 Taxation (Continued)

(a) Income tax expense (Continued)

(v) PRC withholding tax ("WHT") (Continued)

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	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**550,004**	561,780
Tax calculated at applicable tax rates	**137,501**	140,652
Expenses not deductible for tax purpose	**4,405**	1,410
Tax benefit from HNTE qualification	**(57,079)**	(58,002)
Additional deduction of research and development cost and other expense	**(14,540)**	(12,866)
WHT on dividends from subsidiaries	**—**	11,986
Tax charge	**70,287**	83,180

(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 16% to 13% since April 2019.

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

13 Earnings per share

(a) Basic

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit attributable to the shareholders of the Company	**479,717**	478,600
Weighted average number of ordinary shares in issue (thousands)	**635,000**	531,068
Basic earnings per share (RMB)	**0.76**	0.90

(b) Diluted

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit attributable to the shareholders of the Company	**479,717**	478,600
Weighted average number of ordinary shares in issue (thousands)	**635,000**	531,068
Adjustments for share options	**270**	—
Weighted average number of ordinary shares for diluted earnings per share	**635,270**	531,068
Diluted earnings per share (RMB)	**0.76**	0.90

14 Dividends

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash dividend paid by the Company *(a)*	**129,272**	83,082
Final dividend proposed by the Company *(b)*	**113,767**	132,420

(a) Dividend during the year ended 31 December 2019 and 2018 represented cash dividend paid by the Company to its equity holders.

(b) On 20 March 2020, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2019 of HK$127 million (equivalent to approximately RMB113.8 million at year-end exchange rate), representing HK$0.20 per ordinary share. Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. These financial statements do not reflect this dividend payable.

15 Subsidiaries

The investments in subsidiaries are stated at cost, less impairment if any. The following sets out the details of the principal subsidiaries of the Company as at 31 December 2019:

Company name	Date of incorporation	Country/Place of incorporation, legal status	Registered share capital	Paid-in share capital	Directly and indirectly held 31 December 2018	Directly and indirectly held 31 December 2019	Principal activities
Directly held by the Company							
Prinx Chengshan (Hong Kong) Tire Limited	06 June 2014	Hong Kong, limited liability company	USD178,000,000	USD178,000,000	100%	100%	Investment holding and trading of tire products
Prinx Investment Holding Limited	26 November 2018	British Virgin Islands, limited liability company	USD500	USD0	N/A	100%	Investment holding
Indirectly held by the Company							
Prinx Chengshan (Shandong) Tire Co., Ltd.	29 December 2005	Shandong China, limited liability company	USD158,000,000	USD158,000,000	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.	08 March 2018	Shandong China, limited liability company	RMB76,800,000	RMB48,764,713	100%	100%	Investment holding and trading of tire products

15 Subsidiaries (Continued)

Company name	Date of incorporation	Country/Place of incorporation, legal status	Registered share capital	Paid-in share capital	Directly and indirectly held 31 December 2018	Directly and indirectly held 31 December 2019	Principal activities
Prinx Chengshan Tire North America, Inc.	01 November 2018	California USA, corporation	USD1,203,990	USD1,203,990	100%	100%	Investment holding and trading of inflatable products and related products
Prinx (Hong Kong) Investment Limited	13 December 2018	Hong Kong, limited liability company	USD20,000	USD0	100%	100%	Investment holding
Prinx Chengshan Tire (Thailand) Co., Ltd.	20 December 2018	Thailand, limited liability company	THB 3,000,000	THB 82,000,000	100%	100%	Manufacturing and trading of tire products
Shenzhen Zhianda Investment Co., Ltd.(i)	02 May 2018	Guangdong China, limited liability company	RMB40,000,000	RMB13,370,000	N/A	90%	Investment holding and trading of tire products
Jinan Zhianda Investment Co., Ltd.(i)	07 June 2018	Shandong China, limited liability company	RMB20,000,000	RMB18,000,000	N/A	97.5%	Investment holding and trading of tire products
Shanghai Zhianda Investment Co., Ltd.	14 January 2019	Shanghai China, limited liability company	RMB20,000,000	RMB14,015,000	N/A	90%	Investment holding and trading of tire products

(i) Shenzhen Zhianda Investment Co., Ltd. and Jinan Zhianda Investment Co., Ltd. were acquired by the Group on 1 January 2019.

16 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 2019 RMB'000	Year ended 31 December 2018 RMB'000
Opening net book value	**103,932**	107,766
Change of accounting policy *(Note 2.2)*	**(103,932)**	—
Amortisation *(Note 9)*	**—**	(3,834)
Closing net book value	**—**	103,932

17 Property, plant and equipment

	Land and buildings RMB'000	Machinery and factory equipment RMB'000	Furniture and fixtures RMB'000	Vehicles RMB'000	Toolings RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 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 *(Note 9)*	(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
Year ended 31 December 2019							
Opening net book amount	327,444	650,545	4,976	7,359	78,474	303,792	1,372,590
Transferred in from construction in progress	190,880	296,481	5,826	6,279	44,751	(544,217)	—
Other additions	—	—	7,815	—	—	1,258,304	1,266,119
Disposals	(1,656)	(1,556)	(163)	(108)	(2,126)	—	(5,609)
Depreciation charges *(Note 9)*	(19,022)	(119,669)	(2,036)	(2,555)	(31,620)	—	(174,902)
Exchange difference	2,916	—	—	—	—	2,901	5,817
Closing net book amount	500,562	825,801	16,418	10,975	89,479	1,020,780	2,464,015
At 31 December 2019							
Cost	693,009	2,547,147	40,661	30,168	426,226	1,020,780	4,757,991
Accumulated depreciation	(192,447)	(1,721,346)	(24,243)	(19,193)	(336,747)	—	(2,293,976)
Net book amount	500,562	825,801	16,418	10,975	89,479	1,020,780	2,464,015

17 Property, plant and equipment (Continued)

For the years ended 31 December 2019 and 2018, 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	
	2019	2018
	RMB'000	*RMB'000*
Cost of sales	**159,253**	164,348
Selling and distribution expenses	**1,177**	1,295
Administrative expenses	**1,768**	1,904
Research and development costs	**12,704**	12,575
Total	**174,902**	180,122

For the year ended 31 December 2019, the Group has capitalized borrowing costs amounting to RMB7,123,000 (2018: nil) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 3.90%.

18 Right-of-use assets

	As at	
	31 December 2019	1 January 2019
	RMB'000	*RMB'000*
Right-of-use assets		
— Land use rights	**100,098**	103,932
— Buildings	**10,589**	16,086
	110,687	120,018
Lease liabilities		
Current		
—Lease liabilities	**8,808**	7,259
Non-Current		
—Lease liabilities	**1,873**	8,827
	10,681	16,086

The Group's Land use rights are all located in the PRC and own Land Certificates.

The current and non-current portion of lease liabilities amounting to RMB7,596,000 and RMB1,255,000 respectively represent amounts due to related parties.

18 Right-of-use assets (Continued)

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Depreciation of right-of-use assets *(Note 9)*		
— Land use rights	**3,834**	—
— Buildings	**8,608**	—
	12,442	—
Interest expense *(Note 11)*	**625**	—
Expense relating to short term leases	**13,989**	—

The total cash payment for leases in 2019 was RMB23,130,000.

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 2018						
Opening net book amount	43,436	516	19,600	2,359	—	65,911
Additions	—	—	—	1,658	2,247	3,905
Amortisation charge *(Note 9)*	—	(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
Year ended 31 December 2019						
Opening net book amount	43,436	156	9,374	3,002	2,174	58,142
Additions	—	—	—	1,938	125	2,063
Amortisation charge *(Note 9)*	—	(102)	(9,374)	(871)	(908)	(11,255)
Closing net book amount	43,436	54	—	4,069	1,391	48,950

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*
At 31 December 2019						
Cost	43,436	1,572	51,130	21,610	2,372	120,120
Accumulated amortisation	—	(1,518)	(51,130)	(17,541)	(981)	(71,170)
Net book amount	43,436	54	—	4,069	1,391	48,950

During the year ended 31 December 2019, 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 2019	43,436	—	—	—	43,436

	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

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.

19 Intangible assets (Continued)

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	
	2019	2018
Sales volume (% annual growth rate)	**8%-15%**	8%-14%
Sales price (% annual growth rate)	**1%-3%**	1%-3%
Gross margin (% of revenue)	**18%-21%**	18%-20%
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 2018 and 2019, 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 2019			
Financial assets			
Financial assets at fair value through profit or loss	—	180,885	180,885
Amounts due from related parties	72,740	—	72,740
Trade receivables	960,410	—	960,410
Other receivables	13,844	—	13,844
Cash and cash equivalents	914,495	—	914,495
Restricted cash	123,905	—	123,905
Total	2,085,394	180,885	2,266,279

	Financial liabilities at amortised cost *RMB'000*
As at 31 December 2019	
Financial liabilities	
Lease liabilities	10,681
Borrowings	357,000
Trade payables	1,198,715
Other payables	453,495
Amounts due to related parties	19,815
Total	2,039,706

20a Financial instruments by category (Continued)

	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

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	
	2019	2018
	RMB'000	*RMB'000*
Group 1	**220,230**	176,866
Group 2	**740,180**	756,675
Total	**960,410**	933,541

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.

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	
	2019	2018
	RMB'000	*RMB'000*
Group 1	**156,848**	28,514
Group 2	**690,373**	1,379,125
Group 3	**191,054**	61,605
Total	**1,038,275**	1,469,244

21 Inventories

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Raw materials	**149,995**	154,161
Work-in-progress	**48,845**	45,205
Finished goods	**559,424**	473,702
	758,264	673,068
Provision for impairment of inventory	**(3,073)**	(1,489)
	755,191	671,579

During the year ended 31 December 2019, the cost of inventories recognised as an expense and included in "cost of sales" was RMB3,950,215,000 (2018: RMB3,646,125,000). Provisions of inventory write-down of RMB3,073,000 were made for the year ended 31 December 2019 (2018: RMB1,489,000).

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At beginning of the year	**1,489**	1,321
Provision for write-down of inventories *(Note 9)*	**2,966**	1,380
Write-off as recorded in cost of sales	**(1,382)**	(1,212)
At the end of the year	**3,073**	1,489

22 Financial assets at fair value through profit or loss

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At beginning of the year	**497,608**	—
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	**—**	130,000
Additions	**2,898,670**	4,623,827
Disposals	**(3,228,670)**	(4,271,604)
Gains on disposal of financial assets at fair value through profit or loss *(Note 8)*	**14,074**	14,682
Fair value (losses)/gains on financial assets at fair value through profit or loss *(Note 8)*	**(797)**	703
At the end of the year	**180,885**	497,608

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Financial assets at fair value through profit or loss		
— Wealth management products *(a)*	**152,878**	468,526
— Listed equity securities *(b)*	**28,007**	29,082
	180,885	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.

23 Trade receivables

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Accounts receivable	**752,143**	767,317
Less: provision for impairment of accounts receivable	**(11,963)**	(10,642)
Accounts receivable — net	**740,180**	756,675
Notes receivable	**220,230**	176,866
Trade receivables — net	**960,410**	933,541

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

As at 31 December 2019 and 2018, the aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Up to 3 months	**862,196**	843,042
4 to 6 months	**86,980**	54,273
7 to 12 months	**17,661**	33,312
1 to 2 years	**2,242**	4,784
2 to 3 years	**677**	5,408
Over 3 years	**2,617**	3,364
	972,373	944,183

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At beginning of the year	**10,642**	11,574
Provision for impairment of trade receivables *(Note 9)*	**1,321**	530
Trade receivables written off during the year as uncollectible	**—**	(1,462)
At the end of the year	**11,963**	10,642

23 Trade receivables (Continued)

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**663,175**	601,416
USD	**303,520**	342,767
EUR	**5,678**	—
	972,373	944,183

24 Prepayments, other receivables and other current assets

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non-current		
Prepayments for purchase of property, plant and equipment	**44,111**	10,979
Other receivables	**—**	2,000
	44,111	12,979
Current		
Prepayments	**50,338**	40,595
Other receivables	**13,829**	11,752
Prepaid income tax	**4,303**	—
Other current assets — value added tax to be deducted	**78,156**	22,442
	146,626	74,789
	190,737	87,768

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.

25 Cash and cash equivalents

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash on hand	**125**	77
Cash at banks *(Note 20b)*	**1,038,275**	1,469,244
	1,038,400	1,469,321
Less: Restricted cash *(a)*	**(123,905)**	(83,973)
	914,495	1,385,348

(a) As at 31 December 2019, the restricted cash balances amounting to RMB123,905,000 (2018: RMB83,973,000) were pledged as security for issuing notes payable of the Group (Note 30).

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**323,093**	320,151
USD	**672,438**	1,009,680
HKD	**13,373**	134,911
EUR	**22,093**	4,537
THB	**7,403**	42
	1,038,400	1,469,321

26 Share capital and Share premium

	Number of authorised shares
Authorised share capital:	
As at 1 January 2018 and 31 December 2018 and 2019	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 2018	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 and 31 December 2019	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.

27 Share options

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 5 July 2019, the current share option scheme (the "Share Option Scheme") was adopted by the Company.

Official full-time employees are eligible to participate in the Share Option Scheme. Subject to the vesting schedule, the Share Option Scheme are exercisable within a period of six years commencing from the grant date.

The exercise of share options shall be conditional upon fulfilment of the Company's annual performance objectives and personal performance objectives. Assuming all the conditions for exercise of the share options are fulfilled in accordance with the Share Option Scheme, the proportion of 1/3, 1/3 and 1/3 of the share options may be exercised after the 12 months, 24 months, 36 months from the date of grant.

On 9 July 2019 (the "Grant Date"), the board of directors resolved to grant 14,400,000 shares of options to certain eligible employees under the Share Option Scheme, such share options had been accepted by the share option grantees at no consideration.

Total fair value of options as at the Grant Date granted during the year ended 31 December 2019 was determined to be HKD 25,709,438, assuming the Company's annual performance objectives and personal performance objectives can be fulfilled. The Company has engaged an independent valuation firm to access the fair value of options by adopting the Binomial Option-Pricing Model that takes into account the exercise price, option life, the spot price, the expected volatility, the expected dividend yield, the risk free interest rate and the expected post-vesting forfeiture rate, etc. as at the Grant Date.

The key valuation inputs for options granted during the year ended 31 December 2019 included:

	Year ended 31 December 2019
Exercise price	HKD7.244
Spot price on Grant Date	HKD7.130
Expected volatility	35.23%
Expected dividend yield	3.34%
Risk-free interest rate	1.506%
Expiry date	9 July 2025
Expected post-vesting Forfeiture Rate	5%

As at 31 December 2019, the share option grantees satisfied the above mentioned exercise conditions in accordance with the Share Option Scheme and an employee benefit expense of amounting to RMB6,966,000 with a corresponding increase in equity is recognized in profit or loss.

28 Reserves

	Capital reserve *RMB'000*	Statutory Reserve (i) *RMB'000*	Translation reserve *RMB'000*	Retained earnings (i) *RMB'000*	Share option reserves *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	(70,715)	100,099	(66,538)	525,827	—	488,673
Profit for the year	—	—	—	478,600	—	478,600
Cash dividends *(Note 14)*	—	—	—	(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
Profit for the year	—	—	—	479,717	—	479,717
Cash dividends *(Note 14)*	—	—	—	(129,272)	—	(129,272)
Profit appropriation to statutory reserves	—	51,049	—	(51,049)	—	—
Currency translation differences	—	—	10,435	—	—	10,435
Employee share option schemes — value of employee services *(Note 27)*	—	—	—	—	6,966	6,966
Balance at 31 December 2019	(70,715)	200,918	(66,352)	1,170,971	6,966	1,241,788

(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	
	2019	2018
	RMB'000	*RMB'000*
Current		
Short-term bank borrowings		
— Secured	**—**	350,000
— Unsecured	**357,000**	—
	357,000	350,000

As at 31 December 2019, the weighted average effective interest rates on borrowings from banks were 3.83% (2018: 3.90%).

As at 31 December 2018, the secured bank borrowings were secured by certain property, plant and equipment amounting RMB293.7 million.

As at 31 December 2018 and 2019, the carrying amounts of the Group's bank borrowings were denominated in RMB.

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Floating rate:		
— Expiring within one year	**1,766,275**	1,380,651
— Expiring over one year	**49,000**	157,688

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	
	2019	2018
	RMB'000	*RMB'000*
6 months or less	**—**	350,000
Between 6 and 12 months	**357,000**	—
	357,000	350,000

29 Bank borrowings (Continued)

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**357,000**	350,000

As at 31 December 2019 and 2018, the carrying amounts of current borrowings approximate their fair values.

30 Trade payables

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Accounts payable	**664,251**	590,239
Notes payable *(a)*	**534,464**	523,460
	1,198,715	1,113,699

(a) As at 31 December 2019 and 2018, all notes payable represented bank acceptance notes were secured by certain restricted bank balances (Note 25).

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	
	2019	2018
	RMB'000	*RMB'000*
RMB	**1,117,550**	1,011,649
USD	**77,680**	101,631
EUR	**3,485**	419
	1,198,715	1,113,699

30 Trade payables (Continued)

As at 31 December 2019 and 2018, the aging analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**850,575**	800,329
4 to 6 months	**334,952**	300,384
7 to 12 months	**3,205**	1,958
Above 1 year	**9,983**	11,028
	1,198,715	1,113,699

31 Other payables and accruals

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Payables for purchase of property, plant and equipment	**158,770**	134,461
Payroll and employee benefit payables	**138,918**	123,403
Accrued sales rebates and commission	**86,080**	68,472
Accrued expense	**84,984**	76,786
Freight Payable	**43,003**	37,441
Deposit from customers	**23,141**	23,276
Other tax payables	**4,760**	5,472
Interest payables	**359**	417
Other payables	**57,158**	39,165
	597,173	508,893

32 Provision for warranties

	Products warranties *RMB'000*
As at 1 January 2018	87,405
Additional provision *(Note 9)*	34,003
Utilised during the year	(47,535)
As at 31 December 2018	73,873
Additional provision *(Note 9)*	39,161
Utilised during the year	(36,813)
As at 31 December 2019	76,221

33 Deferred income

	Deferred government grant *RMB'000*
As at 1 January 2018	15,784
Addition	27,045
Credited to the consolidated statements of profit or loss	(2,883)
As at 31 December 2018	39,946
Addition	5,230
Credited to the consolidated statements of profit or loss	(3,078)
As at 31 December 2019	42,098

34 Deferred income tax

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	**27,337**	24,159
— Deferred tax assets to be recovered after more than 12 months	**820**	651
	28,157	24,810
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	**(11,992)**	(7,048)
— Deferred tax liabilities to be settled after more than 12 months	**(64,110)**	(30,179)
	(76,102)	(37,227)
Deferred tax liabilities, net	**(47,945)**	(12,417)

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**(12,417)**	(10,554)
Charge for the year *(Note 12)*	**(35,528)**	(1,863)
At end of year	**(47,945)**	(12,417)

34 Deferred income tax (Continued)

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 RMB'000	Accelerated tax depreciation RMB'000	Accruals RMB'000	Warranties RMB'000	Government grants RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	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
(Charged)/credited to the consolidated statements of profit or loss	435	(137)	1,405	757	306	581	3,347
At 31 December 2019	2,255	514	10,357	7,951	6,299	781	28,157

Deferred tax liabilities

	Fair value gains arising from business combination RMB'000	Depreciation difference RMB'000	Total RMB'000
At 1 January 2018	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
(Credited)/charged to the consolidated statements of profit or loss	(5,528)	44,403	38,875
At 31 December 2019	21,044	55,058	76,102

35 Cash generated from operations

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**550,004**	561,780
Adjustments for:		
— Share of result of associates	**(133)**	—
— Depreciation of property, plant and equipment *(Note 17)*	**174,902**	180,122
— Depreciation of right-of-use assets *(Note 18)*	**12,442**	—
— Amortisation of land use rights *(Note 16)*	**—**	3,834
— Amortisation of intangible assets *(Note 19)*	**11,255**	11,674
— Gains on disposal of financial assets at fair value through profit or loss *(Note 8)*	**(14,074)**	(14,682)
— Losses/(gains) from fair value change of financial assets at fair value through profit or loss *(Note 8)*	**797**	(703)
— Dividend income from financial assets at fair value through profit or loss *(Note 8)*	**(4,759)**	—
— Share based payment *(Note 27)*	**6,966**	—
— Losses on disposal of property, plant and equipment *(Note 8)*	**1,501**	3,270
— Provision for impairment of receivables *(Note 23)*	**1,321**	530
— Provision for write-down of inventories *(Note 21)*	**2,966**	1,380
— Finance costs — net *(Note 11)*	**(10,429)**	4,595
Changes in working capital (excluding currency translation differences on consolidation):		
— Increase in pledged bank deposits	**(39,932)**	(49,016)
— (Increase)/decrease in inventories	**(83,491)**	14,244
— (Increase)/decrease in trade receivables	**(29,737)**	37,201
— Decrease/(Increase) in prepayments, other receivables and other current assets	**9,731**	(40,212)
— Increase in amounts due from related parties	**(13,001)**	(40,370)
— Increase in trade payables	**76,697**	206,593
— Decrease in amounts due to related parties	**(5,301)**	(16,385)
— Increase in deferred income, net	**2,152**	24,162
— Increase/(decrease) in provision for warranties	**2,348**	(13,532)
— Increase in other payables and accruals	**68,590**	6,804
— (Decrease)/Increase in contract liabilities	**(13,093)**	59,512
Cash generated from operations	**707,722**	940,801

35 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 2019 RMB'000	2018 RMB'000
Net book value *(Note 17)*	**5,609**	3,353
Losses on disposal of property, plant and equipment *(Note 8)*	**(1,501)**	(3,270)
Proceeds from disposal of property, plant and equipment	**4,108**	83

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	Lease Liabilities RMB'000	Total RMB'000
As of 1 January 2018 *(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
Change of Accounting Policy	—	—	—	—	16,086	16,086
As of 1 January 2019 *(Note)*	—	350,417	—	3,684	16,086	370,187
Cash flows						
— inflow from financing activities	—	357,000	—	—	—	357,000
— outflow from operating activities	—	(13,497)	—	—	—	(13,497)
— outflow from financing activities	—	(350,000)	—	(3,579)	(9,141)	(362,720)

35 Cash generated from operations (Continued)

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise: (Continued)

	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	Lease Liabilities RMB'000	Total RMB'000
Non-cash changes						
— increase of right-of-use assets	—	—	—	—	3,111	3,111
— currency translations	—	—	—	(105)	—	(105)
— interest expense	—	13,439	—	—	625	14,064
As of 31 December 2019 *(Note)*	—	357,359	—	—	10,681	368,040

Note: The balance of these financial liabilities comprise "bank borrowings", "amounts due to related parties", "lease liabilities", respective interest payable and "other payables and accruals".

36 Commitments

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
— Contracted but not provided for	**399,457**	57,304

37 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 2019 and 2018, and balances arising from related party transactions as at the respective balance sheet dates.

Name and relationship with related parties are set out below:

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

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

37 Related party transactions (Continued)

(a) Transactions with related parties

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Continuing transactions		
(i) Purchase of raw materials		
— Sinotruk	**9,179**	63,371
(ii) Purchase of utilities		
— Chengshan Group	**167,500**	133,763
(iii) Sale of goods		
— Sinotruk	**305,708**	313,193
— Yunnan Prinx Chengshan Tire Co., Ltd.	**55,899**	20,217
— Hebei Prinx Chengshan Tire Co., Ltd.	**7,380**	—
	368,987	333,410
(iv) Rental and estate management expenses paid and payable		
— Rongcheng Chengshan Properties Co., Ltd.	**5,009**	5,009
— Chengshan Group	**7,803**	7,810
	12,812	12,819

After the adoption of HKFRS16 with effect from 1 January 2019, the total depreciation and finance charges for the leases from related parties (Note 18) recorded in the consolidated statement of profit or loss amounted to RMB7,951,000 for the year ended 31 December 2019.

	2019 RMB'000	2018 RMB'000
(v) Service received		
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	**5,456**	9,626

37 Related party transactions (Continued)

(a) Transactions with related parties (Continued)

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non-continuing transactions		
(vi) Inter-company transactions		
Loans granted from		
— Chengshan Group	**612**	—
Repayment of loan to		
— Chengshan Trade	**—**	78,588
— Chengshan Group	**4,191**	24,204
	4,191	102,792

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.

37 Related party transactions (Continued)

(b) Balances with related parties

(i) Amounts due to related parties

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current		
Loans from related parties		
— Chengshan Group	**—**	3,684
Contract liabilities		
— Yunnan Prinx Chengshan Tire Co., Ltd.	**2,895**	4,777
— Hebei Prinx Chengshan Tire Co., Ltd.	**6**	—
	2,901	4,777
Trade payables		
— Chengshan Group	**15,917**	14,536
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	**997**	5,803
	16,914	20,339
	19,815	28,800

The balances of loan from related parties were unsecured, non-interest bearing and had no fixed repayment term as at 31 December 2019 and 2018.

37 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	
	2019	2018
	RMB'000	*RMB'000*
RMB	**19,815**	25,116
USD	**—**	3,684
	19,815	28,800

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Less than 3 months	**16,914**	20,339

(ii) Amounts due from related parties

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current		
Trade receivables		
— Sinotruk	**69,163**	59,739
— Hebei Prinx Chengshan Tire Co., Ltd.	**3,577**	—
	72,740	59,739

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	
	2019	2018
	RMB'000	*RMB'000*
Less than 3 months	**72,740**	59,739

37 Related party transactions (Continued)

(b) Balances with related parties (Continued)

(iii) Lease liabilities

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non - Current		
— Chengshan Group	**1,255**	—
Current		
— Chengshan Group	**7,596**	—
	8,851	—

38 Contingencies

On 23 December 2016, Prinx Chengshan (Shandong) Tire Co., Ltd., a subsidiary of the Group, sued Qingdao Xinhonglun Industry and Trade Co., Ltd. for failing to transfer ROAD SHINE and GOLD PARTNER trademarks to Prinx Chengshan (Shandong) Tire Co., Ltd. as stipulated in the contract. Qingdao Xinhonglun Industry and Trade Co., Ltd. was required to compensate for the economic losses suffered by Prinx Chengshan (Shandong) Tire Co., Ltd. due to the breach of contract. On 19 August 2019, the first instance decided that Qingdao Xinhonglun Industry and Trade Co., Ltd. compensated Prinx Chengshan (Shandong) Tire Co., Ltd. for RMB43,300,000 and accrued interest. Qingdao Xinhonglun Industry and Trade Co., Ltd. filed an appeal on 6 January 2020, requesting the revocation of the first instance judgment and rejecting the lawsuit of Prinx Chengshan (Shandong) Tire Co., Ltd.. In the opinion of the directors of the Group, this case has not yet been finalized as of the date of publication of the financial statements, and the obtaining of the above compensation is uncertain, so it has not been recognized in the financial statements.

39 Events occurring after the reporting period

Given the outbreak of novel coronavirus pneumonia (the "**NCP Epidemic**") in Mainland China since January 2020, the Company implemented a series of measures, such as epidemic prevention and control, delay of work resumption, in accordance with the requirements issued by the central and local governments regarding the NCP Epidemic prevention and control, to ensure the health and safety of the customers and employees. Since January 2020 and as of the date of this report, the Group's output remained stable compared with the same period last year, while domestic sales was greatly affected by epidemic control in the short term. The Group dispatched its resources in a timely manner and focused on ensuring the sales of international marketing channels. At present, international sales has increased compared with the same period last year. As of the date of this report, the overall impact of the NCP Epidemic and the country's macroeconomic policy adjustments on the macro economy is unclear. The Group will continue to pay close attention to the development of the epidemic and take relevant measures as appropriate.

40 Balance sheet and reserve movement of the Company

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**2**	2
Interests in subsidiaries		**2,281,753**	1,792,023
		2,281,755	1,792,025
Current assets			
Financial assets at fair value through profit or loss		**28,007**	29,082
Cash and cash equivalents		**12,086**	600,798
		40,093	629,880
Total assets		**2,321,848**	2,421,905
Equity			
Share capital	26	**199**	199
Share premium	26	**2,171,942**	2,171,942
Reserves	a	**140,980**	244,193
Total equity		**2,313,121**	2,416,334
Liabilities			
Current liabilities			
Other payables and accruals		**2,099**	2,672
Amounts due to related parties		**6,628**	2,899
		8,727	5,571
Total liabilities		**8,727**	5,571
Total equity and liabilities		**2,321,848**	2,421,905

The balance sheet of the Company was approved by the Board of Directors on 20 March 2020 and were signed on its behalf.

Che Baozhen
Director

Shi Futao
Director

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

Note (a): Reserve movement of the Company

	Translation reserve *RMB'000*	Retained earnings/ (accumulated losses) *RMB'000*	Reserves *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	35,322	(11,542)	—	23,780
Profit for the year	—	223,853	—	223,853
Cash dividends *(Note 14)*	—	(83,082)	—	(83,082)
Currency translation differences *(i)*	79,642	—	—	79,642
Balance at 31 December 2018	114,964	129,229	—	244,193
Profit for the year	—	3,212	—	3,212
Cash dividends *(Note 14)*	—	(129,272)	—	(129,272)
Currency translation differences *(i)*	15,881	—	—	15,881
Employee share option schemes				
— value of employee services	—	—	6,966	6,966
Balance at 31 December 2019	130,845	3,169	6,966	140,980

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