Prinx Chengshan Holdings Limited
浦林成山控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1809)

(1) DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021 (2) PRELIMINARY UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

This announcement is made by the board (the "**Board**") of Prinx Chengshan Holdings Limited (the "**Company**" or "**Prinx Chengshan**" and together with its subsidiaries, the "**Group**") pursuant to Rules 13.09 and 13.49(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

For the reasons explained below under "Review of Unaudited Annual Results", as at the date of this announcement, the audit procedures for the annual results of the Group for the year ended December 31, 2021 (the "**Reporting Period**") has not been completed.

PRELIMINARY UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

In order to keep the shareholders of the Company (the "**Shareholders**") and the public informed of the Group's financial performance and position, the Board wishes to set forth below the preliminary unaudited annual results for the year ended December 31, 2021 (the "**2021 Preliminary Unaudited Annual Results**") together with the comparative audited figures for the year ended December 31, 2020. The 2021 Preliminary Unaudited Annual Results have neither been audited nor reviewed by the Company's auditor (the "**Auditor**"). The Board confirms that the following 2021 Preliminary Unaudited Annual Results is prepared on the same basis as used in the audited financial statements of the Group for the year ended and as of December 31, 2020.

FINANCIAL HIGHLIGHTS

	2021	2020	
	RMB'000	*RMB'000*	**Change**
	(Unaudited)	(Audited)	
REVENUE	**7,537,161**	6,283,130	20.0%
Gross profit	**1,055,607**	1,401,363	-24.7%
Profit for the year	**292,761**	604,748	-51.6%
Profit attributable to			
— Shareholders of the Company	**292,763**	604,820	-51.6%
— Non-controlling interests	**(2)**	(72)	-97.2%
	292,761	604,748	-51.6%
Earnings per share attributable to shareholders of the Company during the year			
— Basic *(RMB)*	**0.46**	0.95	-51.6%
— Diluted *(RMB)*	**0.46**	0.95	-51.6%

DIVIDENDS

Upon completion of the audit procedures, the Company will publish its audited annual results for the year ended December 31, 2021 and announce the decision of the Board to recommend a final dividend (if any) for the year ended December 31, 2021.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LESS

For the year ended December 31, 2021

		Year ended December 31,	
		2021	2020
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Revenue	*4*	**7,537,161**	6,283,130
Cost of sales	*7*	**(6,481,554)**	(4,881,767)
Gross profit		**1,055,607**	1,401,363
Selling and distribution expenses	*7*	**(437,849)**	(391,225)
Administrative expenses	*7*	**(175,966)**	(171,334)
Research and development costs	*7*	**(253,979)**	(158,062)
Net impairment losses on financial assets		**(1,577)**	(4,441)
Other income	*5*	**60,667**	42,420
Other gains/(losses) — net	*6*	**40,594**	(29,559)
Operating profit		**287,497**	689,162
Finance income	*8*	**7,544**	14,557
Finance costs	*8*	**(12,380)**	(5,428)
Finance costs — net	*8*	**(4,836)**	9,129
Share of result of associates		**(300)**	(75)
Profit before income tax		**282,361**	698,216
Income tax expense	*9(a)*	**10,400**	(93,468)
Profit for the year		**292,761**	604,748
Profit attributable to:			
— Shareholders of the Company		**292,763**	604,820
— Non-controlling interests		**(2)**	(72)
		292,761	604,748
Earnings per share for profit attributable to shareholders of the Company for the year			
— Basic *(RMB)*	*10*	**0.46**	0.95
— Diluted *(RMB)*	*10*	**0.46**	0.95

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit for the year	**292,761**	604,748
Other comprehensive loss:		
Item that may be reclassified subsequently to profit or loss		
Currency translation differences	**(44,112)**	(135,887)
Other comprehensive loss for the year, net of tax	**(44,112)**	(135,887)
Total comprehensive income for the year	**248,649**	468,861
Attributable to:		
— Shareholders of the Company	**248,651**	468,933
— Non-controlling interests	**(2)**	(72)
Total comprehensive income for the year	**248,649**	468,861

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2021

		As at December 31,	
		2021	2020
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Assets			
Non-current assets			
Property, plant and equipment	*12*	**4,673,480**	3,852,024
Right-of-use assets	*12*	**116,293**	125,009
Intangible assets	*12*	**73,360**	52,080
Investment in associates		**6,008**	6,308
Prepayments	*16*	**147,547**	8,467
		5,016,688	4,043,888
Current assets			
Inventories	*13*	**1,484,864**	973,517
Trade and notes receivables	*15*	**1,383,717**	1,331,037
Prepayments, other receivables and other current assets	*16*	**259,611**	153,642
Financial assets at fair value through profit or loss	*14*	**107,155**	153,479
Amounts due from related parties		**78,820**	215,370
Restricted cash		**112,634**	55,780
Cash and cash equivalents		**741,858**	563,165
		4,168,659	3,445,990
Total assets		**9,185,347**	7,489,878
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital		**201**	200
Share premium		**2,185,598**	2,180,207
Reserves		**1,750,992**	1,599,179
		3,936,791	3,779,586
Non-controlling interests		**(200)**	617
Total equity		**3,936,591**	3,780,203

		As at December 31,	
		2021	2020
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Liabilities			
Non-current liabilities			
Bank borrowings	*17*	**1,600,262**	570,970
Lease liabilities		**13,154**	21,805
Deferred income		**59,851**	55,220
Deferred tax liabilities		**37,622**	57,766
		1,710,889	705,761
Current liabilities			
Trade payables	*18*	**1,957,593**	1,434,152
Other payables and accruals		**1,099,378**	1,232,937
Contract liabilities	*3*	**59,285**	81,676
Lease liabilities		**9,775**	9,208
Provision for warranties		**66,753**	69,482
Amounts due to related parties		**18,279**	6,231
Current income tax liabilities		**29,042**	76,041
Bank borrowings	*17*	**297,762**	94,187
		3,537,867	3,003,914
Total liabilities		**5,248,756**	3,709,675
Total equity and liabilities		**9,185,347**	7,489,878

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1 General information, reorganisation and basis presentation

1.1 General information

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

The Company is an investment holding company that principally engaged in the manufacturing and sales of tire products in the People's Republic of China (the "**PRC**"), Thailand, Asia (except PRC and Thailand), America and other global markets.

The immediate holding company and ultimate controlling company of the Group is Chengshan Group Co., Ltd. ("**Chengshan Group**"), which was established in the PRC. The company is ultimately held as to 76.43% by Mr. Che Baozhen and his spouse, Ms. Bi Wenjing, Mr. Che Hongzhi and his spouse, Ms. Li Xiuxiang and other individual shareholders.

These unaudited consolidated financial statements are presented in thousands of Renminbi ("**RMB'000**") and were approved for issue by the board of directors on 30 March 2022.

2 Basis of preparation

These policies have been consistently applied to all the years presented, unless otherwise stated.

(i) Compliance with HKFRS and HKCO

The unaudited 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 unaudited 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.

(iii) New and amended standards adopted by the Group

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

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

The Group also elected to adopt the following amendments early:

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

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

(iv) New standards and interpretations not yet adopted

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

Standards	**Key requirements**	**Effective for annual periods beginning on or after**
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	January 1, 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	January 1, 2022

Standards (Continued)	Key requirements (Continued)	Effective for annual periods beginning on or after (Continued)
AG 5 (Revised)	Merger Accounting for Common Control Combinations	January 1, 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	January 1, 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
HKFRS 8 (Amendments)	Definition of Accounting Estimates	January 1, 2023
HKFRS 17	Insurance contracts	January 1, 2023
HK Int 5 (2020)	Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	January 1, 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	January 1, 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		January 1, 2022

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

3 Segment information

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

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

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

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

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 December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**2,228,778**	1,964,515
Thailand	**2,560,543**	2,011,194
Others	**452**	1,324
	4,789,773	3,977,033

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

	As at December 31, 2021 *RMB'000* (Unaudited)	As at December 31, 2020 *RMB'000* (Audited)
Contract liabilities	**59,285**	81,676

(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. There was no significant change in contract liabilities.

(ii) Revenue recognised in relation to contract liabilities

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

	Year ended December 31, 2021 *RMB'000* (Unaudited)	Year ended December 31, 2020 *RMB'000* (Audited)
Revenue recognised that was included in the contract liabilities balance at the January 1, 2021 and January 1, 2020		
Sales of tire products	**81,676**	46,431

(iii) Unsatisfied contracts related to sales of tire products

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

4 Revenue

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

5 Other income

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Sales of scraps	**31,661**	20,934
Government grants	**29,006**	21,486
	60,667	42,420

6 Other gains/(losses) — net

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Gains on disposal of financial assets at fair value through profit or loss *(Note 14)*	**4,052**	5,259
Losses from fair value change of financial assets at fair value through profit or loss *(Note 14)*	**(3,435)**	(2,528)
Gains/(losses) on disposal of property, plant and equipment	**137**	(31)
Net foreign exchange losses	**(15,319)**	(24,216)
Donations	**—**	(7,042)
Compensation received from lawsuit *(a)*	**52,697**	—
Others	**2,462**	(1,001)
	40,594	(29,559)

(a) On December 23, 2016, Prinx Chengshan (Shandong) Tire Co., Ltd.("**Prinx Shandong**"), a subsidiary of the Group, sued Qingdao Xinhonglun Industry and Trade Co., Ltd. ("**Xinhonglun**") for failing to transfer ROAD SHINE and GOLD PARTNER trademarks to Prinx Shandong. as stipulated in the contract. Xinhonglun was required to compensate for the economic losses suffered by Prinx Shandong. due to the breach of the contract. Prinx Shandong won the second instance at the end of year 2020. On July 12, 2021, Xinhonglun. filed an application to the Supreme People's Court of the PRC (the "**SPC**") for retrial and the SPC rejected the retrial application on November 18, 2021. With the view of external counsel, the directors of the Company consider that there's remote possibility of prosecutorial protest application accepted by the Supreme People's Procuratorate of the PRC for Xinhonglun. During the year ended December 31, 2021, Prinx Shandong. received all of the compensation amounting to RMB52,697,000.

7 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 December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials and consumables used	**5,576,530**	4,419,355
Wages and salaries, social welfare and benefits, including director's emoluments	**613,662**	579,870
Change in inventories of finished goods and work in progress	**311,202**	(149,090)
Depreciation *(Note 12)*	**263,500**	204,564
Transportation cost and storage expenses	**188,924**	193,151
Export expenses	**70,852**	50,039
Maintenance and repair	**59,731**	53,037
Travel, conference and office expenses	**46,893**	36,797
Provision for warranties	**44,786**	27,334
Professional service fees	**29,370**	10,890
Advertising expenses	**18,792**	25,603
Property insurance premium	**14,404**	10,046
Other levies	**12,832**	28,183
Depreciation of right-of-use assets *(Note 12)*	**11,908**	13,947
Rental and estate expenses	**9,340**	7,850
Write-downs of inventories *(Note 13)*	**7,287**	12,484
Amortisation	**3,924**	2,645
Auditor's remuneration		
— Audit services	**3,129**	2,214
— Non-audit services	**657**	116
Sales commission	**1,815**	3,142
Provision for impairment of trade receivables *(Note 15)*	**1,577**	4,188
Service fees	**1,477**	4,604
Other expenses	**58,333**	65,860
	7,350,925	5,606,829

8 Finance costs — net

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

9 Taxation

(a) Income tax expense

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

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

(i) Cayman Islands and British Virgin Islands profit tax

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

(ii) Hong Kong profits tax

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

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

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

(iv) Other overseas profits tax

The Company's subsidiary, Prinx Chengshan Tire North America, Inc. ("**North America Branch**"), incorporated in California USA, is subject to the federal tax rate of 21% and the state tax of 8.84% for the year ended December 31, 2021. The applicable income tax in Thailand is 20%. Prinx Chengshan Tire (Thailand) Co., Ltd. ("**Prinx Thailand**") was established in Thailand and is qualified as a key encouraged industry enterprise. Approved by local tax authority in 2020, Prinx Thailand was entitled to an eight-year full tax exemption from 2020 to 2027. As at December 31, 2021, the effective tax rate of Prinx Thailand was nil. Prinx Chengshan Tire Europe GmbH, incorporated in Germany, is subject to an overall tax rate of 31.72% set by the local authority for the year ended December 31, 2021.

No other overseas profits tax has been provided since these subsidiaries do not have assessable taxable profits for the year ended December 31, 2021.

(v) ***Withholding tax ("WHT")***

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

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

The 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 December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit before income tax	**282,361**	698,216
Tax calculated at applicable tax rates	**49,888**	177,474
Tax losses for which no deferred income tax asset was recognised	**17,051**	1,529
Expenses not deductible for tax purpose	**4,035**	3,816
Tax benefited from HNTE qualification	**(8,747)**	(70,918)
Additional deduction of research and development cost and other expense	**(29,566)**	(15,428)
Tax exemption of a subsidiary established in specific area	**(43,061)**	(3,005)
Tax charge	**(10,400)**	93,468

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

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

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

10 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 December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit attributable to the shareholders of the Company	**292,763**	604,820
Weighted average number of ordinary shares in issue *(thousands)*	**636,321**	635,178
Basic earnings per share *(RMB)*	**0.46**	0.95

(b) Diluted

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

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit attributable to the shareholders of the Company	**292,763**	604,820
Weighted average number of ordinary shares in issue *(thousands)*	**636,321**	635,178
Adjustments for share options	**503**	1,025
Weighted average number of ordinary shares for diluted earnings per share	**636,824**	636,203
Diluted earnings per share *(RMB)*	**0.46**	0.95

11 Dividends

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash dividend paid by the Company *(a)*	**106,708**	115,989
Final dividend proposed by the Company *(b)*	**0**	107,107

(a) Dividend during the year ended December 31, 2021 and 2020 represented interim and final cash dividends paid by the Company to the Shareholders.

(b) Upon completion of the review process for the annual results for year ended December 31, 2021, the Company will publish its audited annual results for the year ended December 31, 2021 and announce the decision of the Board to recommend a final dividend (if any) for the year ended December 31, 2021.

12 Capital Expenditure

Unaudited **Year ended December 31, 2021**	**Property, plant and equipment** ***RMB'000***	**Right-of-use assets** ***RMB'000***	**Intangible assets** ***RMB'000***
Opening carrying amount as at January 1, 2021	3,852,024	125,009	52,080
Additions	1,251,706	3,192	25,204
Disposals	(1,219)	—	—
Depreciation and amortisation	(263,500)	(11,908)	(3,924)
Exchange difference	(165,531)	—	—
Closing carrying amount as at December 31, 2021	4,673,480	116,293	73,360

Audited Year ended December 31, 2020	Property, plant and equipment *RMB'000*	Right-of-use assets *RMB'000*	Intangible assets *RMB'000*
Opening carrying amount as at January 1, 2020	2,464,015	110,687	48,950
Additions	1,706,628	28,269	5,775
Disposals	(1,324)	—	—
Depreciation and amortisation	(204,564)	(13,947)	(2,645)
Exchange difference	(112,731)	—	—
Closing carrying amount as at December 31, 2020	3,852,024	125,009	52,080

13 Inventories

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**426,117**	229,544
Work-in-progress	**84,242**	72,385
Finished goods	**984,319**	684,974
	1,494,678	986,903
Write-downs of inventories	**(9,814)**	(13,386)
	1,484,864	973,517

During the year ended December 31, 2021, the cost of inventories recognised as an expense and included in 'cost of sales' was RMB5,874,228,000 (2020: RMB4,245,879,000). Write-downs of inventories amounting to RMB7,287,000 were made for the year ended December 31, 2021 (2020: RMB12,484,000).

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

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of the year	**13,386**	3,073
Write-downs of inventories *(Note 7)*	**7,287**	12,484
Write-off as recorded in cost of sales	**(10,740)**	(2,019)
Exchange difference	**(119)**	(152)
At the end of the year	**9,814**	13,386

14 Financial assets at fair value through profit or loss

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of the year	**153,479**	180,885
Additions	**2,624,390**	3,319,400
Disposals	**(2,671,331)**	(3,349,537)
Gains on disposal of financial assets at fair value through profit or loss *(Note 6)*	**4,052**	5,259
Fair value losses on financial assets at fair value through profit or loss *(Note 6)*	**(3,435)**	(2,528)
At the end of the year	**107,155**	153,479

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Financial assets at fair value through profit or loss		
— Wealth management products *(a)*	**85,110**	128,000
— Listed equity securities *(b)*	**22,045**	25,479
	107,155	153,479

(a) The wealth management products are stated fair value at 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.

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

15 Trade and notes receivables

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Receivables	**1,135,177**	991,406
Less: provision for impairment of receivables	**(17,224)**	(15,874)
Receivables — net	**1,117,953**	975,532
Notes receivable	**265,764**	355,505
Trade and notes receivables — net	**1,383,717**	1,331,037

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

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

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Up to 3 months	**1,227,739**	1,205,817
4 to 6 months	**152,247**	126,191
7 to 12 months	**12,967**	4,251
1 to 2 years	**3,883**	6,308
2 to 3 years	**1,080**	1,839
Over 3 years	**3,025**	2,505
	1,400,941	1,346,911

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

	Year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of the year	**15,874**	11,963
Provision for impairment of trade receivables *(Note 7)*	**1,577**	4,188
Trade receivables written off during the year as uncollectible	**(227)**	(277)
At the end of the year	**17,224**	15,874

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.

16 Prepayments, other receivables and other current assets

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Non-current		
Prepayments for purchase of property, plant and equipment	**147,547**	8,467
Current		
Prepayments for inventory	**56,631**	54,679
Other receivables		
— Deposits in Customs Office	**19,295**	225
— Others	**30,469**	20,703
Other current assets — value added tax to be deducted	**153,216**	78,035
	259,611	153,642
	407,158	162,109

The maximum exposure to credit risk at the date of this announcement is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

17 Bank borrowings

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Non-current		
Bank borrowings		
— Secured	**1,138,154**	570,970
— Unsecured	**462,108**	—
	1,600,262	570,970
Current		
Current portion of non-current bank borrowings		
— Secured	**85,582**	—
— Unsecured	**32,980**	—
	118,562	—
Short-term bank borrowings		
— Unsecured	**179,200**	94,187
Total borrowings	**1,898,024**	665,157

As at December 31, 2021, the weighted average effective interest rates on borrowings from banks were 3.21% (2020: 3.15%).

As at December 31, 2021, the secured bank borrowings of RMB1,223,736,000 (2020: RMB570,970,000) and undrawn borrowing facilities of RMB191,271,000 (2020: RMB352,345,000) were secured by certain property, plant and equipment amounting to RMB3,354,654,000 (2020: RMB2,380,424,000).

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

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
RMB	**884,288**	240,000
USD	**1,013,736**	425,157
	1,898,024	665,157

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

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**297,762**	94,187
Between one and two years	**398,859**	87,500
Between two and five years	**1,091,149**	362,735
Over five years	**110,254**	120,735
	1,898,024	665,157

18 Trade payables

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Accounts payable	**1,089,372**	923,572
Notes payable *(a)*	**868,221**	510,580
	1,957,593	1,434,152

(a) As at December 31, 2021, notes payable of RMB848,333,000 (2020: RMB417,560,000) represented bank acceptance notes secured by certain restricted bank balances and RMB19,888,000 (2020: nil) secured by certain notes receivable.

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

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

	As at December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**1,475,529**	1,043,498
4 to 6 months	**469,319**	321,674
7 to 12 months	**3,315**	37,849
Above 1 year	**9,430**	31,131
	1,957,593	1,434,152

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Industry dynamics

In 2021, the ongoing the COVID-19 pandemic ("**Pandemic**") and the emergence of new variants of the virus posed great challenges to the tire industry in which the Group operates. Due to the significant increase in raw material prices, coupled with the rising energy prices brought about by China's policies of dual control of energy consumption and limitations on the use of electricity and production in the second half of the year, tire manufacturers in China were under severe cost pressure.

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

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

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

Operation Review

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

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

During the Reporting Period, the Group sold approximately 18.6 million sets, representing an increase of approximately 23.2% as compared to 2020. Among them, sales of all steel radial tires amounted to approximately 6.6 million sets, representing an increase of approximately 3.0% as compared to 2020; sales of semi-steel radial tires amounted to approximately 11.6 million sets, representing an increase of approximately 42.9% as compared to 2020. Sales of bias tires amounted to approximately 0.47 million sets, representing a decrease of approximately 24.3% as compared to 2020. During the year, the Group recorded revenue of approximately RMB7,537.2 million, representing a year-on-year increase of approximately 20.0%, and gross profit of approximately RMB1,055.6 million, representing a year-on-year decrease of approximately 24.7%. Profit attributable to owners of the Company for the year ended December 31, 2021 amounted to approximately RMB292.8 million, representing a year-on-year decrease of approximately 51.6%.

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

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

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

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

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

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

In May 2021, Prinx Chengshan launched "quality culture development" activity, and made a quality improvement plan in the aspects of management and technology. The activity was highly recognized throughout the Company, and all staff made a commitment to the Company's quality improvement in 2021. On June 24, 2021, the 2021 International Quality Festival and Global Consumption Leadership Summit themed by "Quality Drives Growth" was held in Beijing. Prinx Chengshan was awarded "2021 Outstanding Quality Brand Award" and "2021 Industry Quality Model Award". In December 2021, Prinx Chengshan, as a representative of a new manufacturing enterprise, participated in the 2021 China Green Tire Safety Week themed activity to popularize green tire knowledge for the public and help sustainable low-carbon travel.

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

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

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

During the Reporting Period, the Group recorded a significant year-on-year increase both in sales volume and revenue, with domestic and international distribution keeping pace with the domestic OE market, and received remarkable achievement in the diversification of sales channels. Relying on the early presence in the North American market, the sales center in North America accommodated the new production capacity of the Production Base in Thailand in time, realizing a sales revenue of RMB1.52 billion.

Distributor channels

Domestic distributors

Commercial vehicle tire replacement channel

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

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

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

Passenger vehicle tire replacement channel

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

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

The Group actively empowered the sales business through digitization. In April 2021, the "Xiaopu System" of Prinx Chengshan's omni-channel digital sales system was officially launched. The "Xiaopu System" links consumers, stores, distributors, and factories in real time, integrates the information of manufacturers' transactions, store transactions, consumer services and other links, and builds a one-object-one-code information carrier, through which the real-time update of tire sales information is realized. Consumers understand product information and pre-sales/post-sales services through "Xiao Pu Ai Jia". The store completed the transaction through "Xiaopu Cloud Store", and the sales personnel obtained the sales information and analysis report in real time through "Xiaopu Butler". In 2021, more than 17,000 online stores were registered, nearly 1 million transactions were completed, and more than 4 million software clicks were recorded.

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

International Marketing

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

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

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

Direct sales to automobile manufacturers

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

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

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

Private label customers

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

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

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

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

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

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

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

With more rich brand connotation, Chengshan Tire has successively won the "2021 China's 500 Most Valuable Brands" by the World Brand Lab, the "2021 China's Top Ten Influential Tire Brands" by the World Manager Summit, the "Star of Automobile Supply Chain" of the 2021 Automotive Aftermarket Golden Star Award, etc., with a brand value of RMB34.158 billion, representing a year-on-year increase of approximately 17% as compared to 2020, ranking the fourth among China's tire brands. In March 2021, the Group won the "2020 Award for Express Suppliers" from China Post and Express News. In April 2021, the Group and Chengshan Tire won the honours of "Pioneer for Public Benefit" and "Truck Brother's Reliable Product" jointly awarded by China Automotive Brothers and JDL, respectively. In May 2021, the Group was included in the "Energy and Chemical Group" list of China brand value evaluation information for four consecutive years at the "China Brand Value Evaluation Information Release and China Brand Construction Summit Forum". The brand value of Prinx Chengshan increased by approximately 29% as compared with last year, which was much higher than the average value.

(5) Innovative sales model

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

Through the Zhianda Model, the Group has established its presence in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim regions, which are the most developed logistics industries in the PRC. During the Reporting Period, the Group focused on the transportation of hazardous chemicals, express delivery, public transportation and port transportation, and established cooperative relationships with a number of fleets to provide customers with tire service solutions for all scenarios.

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

(6) Forging ahead and expanding production capacity

In accordance with to the sales demand forecast, in 2020, the Board successively approved and agreed to commence the production capacity expansion of 1.2 million sets/year of all steel radial tires and 4.0 million sets/year of semi-steel radial tires of the phase II project of the Tire Production Base in Thailand. In 2021, due to the impact of the Pandemic in Thailand, the progress of the project was slightly delayed. It is expected that the phase II project will gradually reach the designed capacity in the first quarter of 2022, helping the Group to further explore overseas markets such as North America and Europe.

Meanwhile, the Board unanimously approved the initiation of the capacity expansion project of Prinx Shandong in 2020, which is expected to reach the designed capacity in the first quarter of 2022. In April 2021, the "Prinx Chengshan 1.05 million sets of All Steel Radial Tire Quality Improvement Project" was successfully selected into the list of "2021 Shandong Province New and Old Kinetic Energy Conversion Major Project Pipeline Selection Project". This list aims to strengthen the key project of "achieving breakthroughs in five years" for the replacement of old growth drivers with new ones in Shandong Province, and better play the leading and exemplary role of selected projects in the construction of projects in the province.

	Production capacity expansion of the Group during the Reporting Period			
Product category	**Actual production capacity at the end of 2020 (10,000 sets)**	**Actual production capacity at the end of 2021 (10,000 sets)**	**Expected production capacity at the end of the Q1 of 2022 (10,000 sets)**	**Expected increase%**
all steel radial tires	715	715	940	31%
semi-steel radial tires	1,240	1,240	1,920	55%
bias tires	120	120	120	—
Total	2,075	2,075	2,980	44%

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

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

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

— development of new patterns, all of which have passed strict domestic and international tests, and the comprehensive performance has reached the level of international first-tier products in subjective and objective aspects;

— innovations in production processes such as synchronous mix, second tread technology, EPS pre-vulcanization production process, extrusion line one-click start-up, and widespread base-belt winding process;

— completion of the identification of five scientific and technological achievements, namely "high-performance special radial tire technology for commercial light vehicles", "ultra-high-performance EV01 electric vehicle tire technology", "application of tire evaluation system in virtual simulation technology for vehicle operation and stability performance", "electronic radiation technology for high-performance passenger tire main materials" and "unlimited winding design and intelligent manufacturing technology for broad-base section load radial tire belt";

— "Development and Industrial Application of Technologies for Green High-Performance Tire Series", which was recognized as a significant scientific and technological achievement during the "13th Five-Year Plan" period by Weihai City; and

— "Low rolling resistance green heavy load radial tire", which was selected into the "2021 Shandong Innovative Industrial Product Catalogue" of the Department of Industry and Information Technology of Shandong Province in August 2021. A total of 179 products were included in the catalogue, including 10 products from the rubber industry.

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

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

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

(8) Management upgrade and talent pool building

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

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

(9) Intelligent manufacturing and information construction

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

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

New products

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

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

	Total sales volume of the Group's products and sales volume of new products developed during the Reporting Period		
Product category	**Sales volume of new products (10,000 sets)**	**Total sales volume (10,000 sets)**	**Proportion of sales of new products in total sales**
all steel radial tires	270.7	658.0	41.1%
semi-steel radial tires	587.2	1,156.7	50.8%
bias tires	0.9	46.6	1.9%
Total	858.8	1,861.3	46.1%

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

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

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

CHANGE OF COMPANY NAME

Reason for the Change of Company Name

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

The new name will establish an international image of the Company and is beneficial to the Company's business development and communication with the relevant Shareholders, which is in the interests of the Company and the Shareholders as a whole.

Effect of the Change of Company Name

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

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

In addition, the English and Chinese stock short names of the Company for trading in the shares of the Company on The Stock Exchange remain unchanged.

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

RESPONSE TO THE COVID-19 PANDEMIC

During the Reporting Period, the global economic recovery continued, as countries took measures for a balance between their infection control and economic activities. The Group strengthened the Pandemic control in production, sales, transportation and other aspects, took the initiative to assume the responsibility of enterprises to fight against the Pandemic, actively organized and arranged production, and provided customers with safe, continuous and stable product supply.

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

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

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

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

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

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

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

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

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

Business and environmental sustainability is a continuing concern of the Group. Adhering to the vision and mission of “leading tire innovation, contributing to smart travel and sustainable development, and achieving a better life”, Prinx Chengshan continuously improves its sustainable development governance, and organically integrates the concept of sustainable development into its operation management. As one of the first “green factories” selected by the Ministry of Industry and Information Technology of the People’s Republic of China and a leader in energy consumption per unit in the industry, the Group continues to adopt environmental protection measures and upgrade production processes. During the Reporting Period, the Group continued to invest in emission reduction, resource protection and waste management, continuous energy conservation and consumption reduction, improvement of the flue gas treatment system in the plant area and sewage treatment project in the plant area to reduce the adverse impact of business operations on the environment. The Group aims to adopt advanced technologies and tools to carry out various green and environmental protection works, to meet domestic and foreign policy requirements and green consumption demands and boost its sustainable development.

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

In response to the Stock Exchange's guidance on the new ESG regulations, the Group has included environmental, social and governance matters into the scope of responsibilities of the Group's Development Strategy and Risk Management Committee. The Board is fully responsible for and leads the Group's sustainable development management, and has established an ESG office to assist the Board in coordinating and communicating with the management, and assist the Board in fulfilling relevant responsibilities. To ensure the implementation of sustainable development strategies and policies, the management reports the progress of ESG issues to the Board meetings on a quarterly basis. At the same time, the EHS Department (Environmental, Health and Safety), the Strategic Planning Department, the Procurement Department and other relevant departments of the Group actively consider and formulate the medium and long-term goals, schedules of environmental KPIs and how to continuously strengthen ESG factors in supply chain management. In May 2021, the Group held the kick-off meeting of sustainable supply chain with Shanghai Jiao Tong University. This is a forward-looking project conducted under the policy background that China "strives to peak carbon emissions and achieve carbon neutrality and makes action plans for peaking carbon emissions by 2030", with industrial characteristics of tire companies and their upstream suppliers being major carbon emitters. The project aims to analyse the possible environmental and social responsibility risks of tire enterprises and their suppliers from a forward-looking perspective, explore possible opportunities of carbon emission reduction in the cooperation with suppliers and how to realize the efficient coordination of energy conservation and emission reduction with quality management and lean production, and jointly explore the value and opportunities of supply chain development in the future.

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

With the spread of the Pandemic in Thailand in 2021, Thailand has entered a critical period of pandemic prevention and control. While performing internal pandemic prevention and control and pandemic management and control of external partners, Prinx Thailand was also actively helping the Thai people to fight against the Pandemic. The management personnel of Prinx Thailand launched a mask donation activity in Tajam Village, Thailand, and donated a total of 36,000 masks to help villagers solve the problem of shortage of pandemic prevention materials in a short period of time. On April 10, 2021, the management personnel of Prinx Thailand participated in the activity organised by the Rubber Industry Association, General Chamber of Commerce of Chinese Enterprises in Thailand to practically help the Thai people fight against the Pandemic by donating 1,000 bags of rice and 2,000 bags of instant noodles to Thai citizens who are living in hardship due to the Pandemic.

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

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

BUSINESS STRATEGIES AND PROSPECTS

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

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

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

(1) Optimize management and strengthen operation. Internally, the Company reduced expenses and costs, reduced non-productive expenses, reduced raw material procurement costs, and carried out more technological lean projects to control expenses. On the other hand, the Group will strengthen its operation to seize the market and form a two-way positive cycle of “boosting production with sales and promoting sales with production”.

(2) Accelerate transformation and upgrading. The Company will continue to deepen tire technology innovation and R & D, further transform to “intelligent manufacturing” and “quality manufacturing”, transform to green development, and to “manufacturing + service”, promote the high-end transfer of enterprises to the industrial chain, and give full play to its advantages to extend the competitive chain. The Group will continue to improve the construction of the R&D system, apply tire cloud computing, intelligent design platform, and multi-scale limited-element analysis technology to tire three-dimensional modeling, and develop advanced technologies such as tire ultra-static noise technology.

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

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Sales by product type	2021 *RMB' 000* (Unaudited)	2020 *RMB' 000* (Audited)
all steel radial tires	**4,888,933**	4,724,563
semi-steel radial tires	**2,511,046**	1,380,601
bias tires	**137,182**	177,966
Total	**7,537,161**	6,283,130

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

Sales by channel	2021 *RMB' 000* (Unaudited)	2020 *RMB' 000* (Audited)
Distributors		
Domestic	**2,043,029**	1,947,173
International	**4,010,882**	2,359,897
	6,053,911	4,307,070
Direct sales to automobile manufacturers	**1,209,222**	1,747,878
Private label customers	**274,028**	228,182
Total	**7,537,161**	6,283,130

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

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

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

Cost of Sales

The Group's cost of sales increased from approximately RMB4,881.8 million for the year ended December 31, 2020 to approximately RMB6,481.6 million for the year ended December 31, 2021, representing an increase of approximately 32.8%. The increase was mainly due to the increase in unit cost as a result of the increase in sales volume by 23.2% year-on-year and the increase in raw material prices and ocean freight charges.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year ended December 31, 2021 amounted to approximately RMB1,055.6 million, representing a decrease of approximately 24.7% compared to approximately RMB1,401.4 million for the year ended December 31, 2020. The Group's gross profit margin for 2021 was approximately 14.0% (2020: 22.3%). The decrease in gross profit and gross profit margin was mainly due to the increase in raw material prices and the increase in sea freight rates, resulting in higher cost increases than selling prices.

Other Income

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

Selling and Distribution Expenses

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

R&D expenses

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

Administrative Expenses

For the years ended December 31, 2021 and 2020, the Group's administrative expenses amounted to approximately RMB176.0 million and RMB171.3 million, respectively, representing an increase of approximately 2.7%. Such increase was primarily due to the production commencement of the Thailand Tire Production Base and expenses incurred in preparing for the second factory in the PRC as well as the reduction of non-essential expenses by the Company.

Other Gains/(Losses)

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

Finance Income

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

Finance Costs

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

Income Tax Expense

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

Profit for the Year

The Group's profit for the year decreased by approximately RMB312.0 million from approximately RMB604.7 million for the year ended December 31, 2020 to approximately RMB292.8 million for the year ended December 31, 2021. The decrease was mainly due to the decrease in the gross profit and increase in expenses.

Profit Attributable to Shareholders

As a result of the foregoing factors, profit attributable to Shareholders for the year ended December 31, 2021 amounted to approximately RMB292.8 million (2020: approximately RMB604.8 million).

Total Comprehensive Income for the Year

Total comprehensive income for the year of the Group decreased by approximately RMB220.2 million from approximately RMB468.9 million for the year ended December 31, 2020 to approximately RMB248.6 million for the year ended December 31, 2021. The decrease was primarily due to an decrease in net profit and increase in foreign currency statement translation losses incurred by entities whose functional currency is foreign currency

Liquidity and Financial Resources

The Group maintained a sound financial position. The Group's borrowing demand was not seasonal. As at December 31, 2021, the Group's cash and cash equivalents (including restricted cash) amounted to approximately RMB854.5 million, representing an increase of approximately RMB235.5 million from approximately RMB618.9 million as at December 31, 2020, which was mainly due to the increase in security deposits for bank acceptance bills. As at December 31, 2021, the Group had bank borrowings of approximately RMB1,898.0 million (2020: approximately RMB665.2 million), of which RMB884.3 million was denominated in RMB and the remaining was denominated in USD. Borrowings at floating interest rates accounted for 18%, and borrowings at fixed interest rates accounted for 82%. Such bank borrowings will be due within one year, one to two years, two to five years and over five years. During the Reporting Period, the borrowings were mainly used to meet the demand of export seller credit loan and capital expenditure.

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

Inventories

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

Trade and Notes Receivables

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

Prepayments, Other Receivables and Other Current Assets

As at December 31, 2021 and 2020, the Group's prepayments, other receivables and other current assets included in current assets were approximately RMB259.6 million and RMB153.6 million, respectively representing an increase of approximately RMB106.0 million. The increase was mainly due to the increase in relevant deductible input tax.

Amounts Due from Related Parties

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

Trade Payables

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

Other Payables and Accruals

As at December 31, 2021 and 2020, the Group's other payables and accruals amounted to RMB1,099.4 million and RMB1,232.9 million, respectively, representing a decrease of approximately RMB133.6 million. The decrease was mainly due to the decrease in payables for purchase of machinery and equipment of RMB117.9 million.

Prepayments and Other Receivables included in Non-Current Assets

As of December 31, 2021 and 2020, the Group's prepayments and other receivables included in non-current assets amounted to approximately RMB147.5 million and RMB8.5 million, respectively, representing an increase of approximately RMB139.1 million. This increase was mainly due to growth in prepayments of construction of property, plant and equipment.

* *for identification only*

Gearing Ratio

As at December 31, 2021, the gearing ratio was 21.3% (2020: 2.0%). The ratio was calculated as net surplus/debt divided by total capital. Net surplus/debt is calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital is calculated as equity plus convertible redeemable preferred shares on an as-if converted basis plus net surplus/debt, which is total equity and financial liabilities at fair value through profit or loss as shown in the consolidated statements of financial position and net surplus/debt.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended December 31, 2021. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Pledge of Assets

As at December 31, 2021, the Group's restricted cash balance of approximately RMB112.6 million (2020: approximately RMB55.8 million) was pledged as security for bills payable issued by the Group and for letters of credit. The Group's property, plant and equipment of approximately RMB3,354.7 million (2020: approximately 2,380.4 million) were pledged as security for bank borrowings of RMB1,223.7 million and undrawn loan facilities of RMB191.3 million. Save for the above, the Group did not have any charges on its assets.

Investments

On December 25, 2018, Prinx Thailand, an indirect wholly-owned subsidiary of the Company, entered into a land purchase agreement with an independent third party to acquire a land plot located at Chonburi province, Thailand at a consideration of THB 806,060,888.60 (equivalent to approximately RMB170.6 million). The Company intends to construct the Thailand Tire Production Base on the Land. The details of the transaction could be found in the announcement published by the Company dated December 27, 2018. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

The Thailand Tire Production Base has a total gross floor area of 311,000 sq.m. and is located at 399 Moo. 4, T. Nong Suea Chang, A.Nong Yai, Chonburi 20200, Thailand with land title deeds nos. 4499, 4500, 4501, 4502, 4495, 4496 and 5659. Prinx Thailand is 100% interested in the Thailand Tire Production Base whose principal business is the design, development, manufacture and distribution of radial tires products (such as radial tires for passenger cars, light truck, and heavy truck) and provision of technical support and services accordingly.

The construction of the Thailand Tire Production Base has begun in 2019, of which the construction of the plants in phase I of the project was completed in 2020, and such plants are currently under stable operation. In the second half of 2020, the Company has commenced the construction project of the Phase II of the Thailand Tire Production Base with a production capacity of 1.2 million sets of all steel tires per year, and the total investment amount of the project is expected to be approximately RMB541.0 million. In the first half of 2021, the Company has commenced the construction project of the Phase II of the Thailand Tire Production Base with a production capacity of 4 million sets of semi steel tires per year, and the total investment amount of the project is expected to be approximately RMB896.0 million. The Phase II of the project is expected to reach the designed capacity in the first quarter of 2022.

The Group has initiated the expansion plan of Prinx Shandong, a wholly-owned subsidiary of the Company, in the second half of 2020. The total investment of the project is expected to be approximately RMB666.0 million, which will increase the annual production capacity of all steel radial tires by 1.05 million units and the annual production capacity of semi-steel radial tires by 2.8 million units. It is expected to reach the designed capacity in the first quarter of 2022.

After the Board considered and approved the plan for constructing the second factory in the PRC in 2020, the Group initiated site selection and demonstration. Considering comprehensive factors such as sales market demand, convenient logistics transportation and operating costs, the Group has selected Feidong County in Anhui Province as the location of the second factory in the PRC, which has been reviewed and approved by the Board. In April 2021, "Anhui Prinx Chengshan Tire Co., Ltd.", a wholly-owned subsidiary of the Group, was registered in Anhui with registered capital of RMB378.0 million.

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

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

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

RISKS AND UNCERTAINTIES

(1) Risks regarding macro economy

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

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

(2) Exposure to foreign exchange risks

Given the fluctuations in the global economy and the tightening and easing of monetary policies by different countries, the Group may be exposed to risks of fluctuations in exchange rates arising from those factors. For the year ended December 31, 2021, the Group's revenue denominated in USD from overseas operations accounted for approximately 56.1% (2020: 41.2%) of the total revenue, which was mainly used for the procurement of overseas raw materials, and the operating expenses of Prinx Thailand were mainly settled in THB. Therefore, the Group was exposed to foreign exchange risk arising from USD and THB. The occurrence of significant fluctuations in exchange rates will affect the results of the Group. Exchange rate fluctuations and market trends have always been a concern of the Group. In this regard, the Company will strengthen the supervision on foreign currency transactions as well as the scale of foreign currency assets and liabilities, and may manage the potential fluctuations in exchange rates by optimizing the settlement currency of export trades and utilizing exchange rate financial instruments and other proactive preventive measures. The Company uses financial instruments such as forward exchange settlement and options to reduce the impact of exchange rate fluctuations on the Company's overseas business. During the Reporting Period, the Group entered into an option contract with bank partners to offset some risks of exchange rate fluctuations.

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

On March 22, 2018, then U.S. President Trump signed a presidential memorandum declaring that according to the results of the 301 survey, tariffs would be imposed on imports from China on a large scale, and Chinese enterprises would be restricted to invest in and merge with companies in the United States. On September 24, 2018, the United States imposed a 10% tariff on USD200 billion of Chinese imports into the United States. On May 10, 2019, the United States decided to raise the tariff on USD200 billion of Chinese imports into the United States from 10% to 25%. After President Biden took office in 2021, additional tariffs continue to be imposed on goods imported from China.

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

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

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

(4) Risks in relation to overseas investments

During the Reporting Period, the construction and operation of the Company's overseas production bases progressed steadily. The phase I project of the Thailand Tire Production Base started to operate in the second half of 2020, the phase II project entered the construction and equipment installation period, and the proportion of the Group's overseas business will be increased. Local economic, political, policy and legal changes in Thailand may change the investment environment in Thailand, affect the construction period of project investment, and pose risks to the Company's operation and investment. Whether the Pandemic can be effectively controlled in Thailand will affect the production and transportation in the Thailand Tire Production Base. Due to travel restrictions brought by the pandemic control, some Chinese-based personnel could not travel to Thailand in a timely manner or return to China to visit relatives on time. The Group adopted comprehensive measures such as remote training to guide the office, implementation of SOP standardized rotation training, arranging personnel exchanges in batches, and expanding recruitment channels in multiple aspects. Some businesses were evaluated and adjusted to the headquarters for undertaking, so as to reduce the impact of the Pandemic on daily operations. In order to cope with the difficulties in tire warehousing in Thailand caused by the shortage of container volume, the Group has cooperated with other parties internally and externally to find new ocean carriers to reduce the risk of shipment and transportation.

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

(5) Risks in relation to climate change

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

CAPITAL STRUCTURE

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

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

For the year ended December 31, 2021, the Group had established “Prinx Chengshan (Shanghai) Investment Co., Ltd.”, which is mainly responsible for holding and managing different business segments in the PRC, “Prinx Chengshan (Shanghai) Tire Sales Co., Ltd.”, which is mainly responsible for the sales of semi-steel products in the PRC market, and “Zhianda (Shanghai) Tire Service Co., Ltd.”, which is mainly developing tire rental service business. The three companies are currently in normal business operation. The establishment of the Shanghai subsidiaries will further realise the strategic expansion of the Group’s sales and marketing headquarters and open a new chapter in the international development of Prinx Chengshan.

As mentioned above, in April 2021, Anhui Company, a wholly-owned subsidiary of the Group, was registered in Anhui with a registered capital of RMB378.0 million. As at August 31, 2021, the Board considered and approved the proposal to adjust the shareholding structure of Anhui Company, and agreed to introduce Hefei Dongcheng Industrial Investment Co., Ltd. as a shareholder to increase the capital of Anhui Company. The registered capital of Anhui Company will be increased from RMB378.0 million to RMB1.0 billion, of which, Prinx Shandong will contribute RMB510.0 million, accounting for 51% of the registered capital; and Hefei Dongcheng Industrial Investment Co., Ltd., a new shareholder will contribute RMB490.0 million, accounting for 49% of the registered capital. The details of the cooperation agreement between the two parties are still under negotiation and the Group will make further announcement upon the execution of the agreement.

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

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OR CAPITAL ASSETS

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

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

HUMAN RESOURCES MANAGEMENT

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

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

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

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

The Company adopted its new share option scheme on May 17, 2021, and terminated the 2019 Share Option Scheme. The Company conditionally granted 35,050,000 Options to certain Grantees on June 28, 2021. All options granted and accepted and remained unexpired prior to such termination continued to be valid and exercisable in accordance with their terms and the terms of the 2019 Share Option Scheme. For details, please refer to the Company's circular dated April 16, 2021 and announcements dated May 17, 2021 and June 18, 2021, respectively.

The Company also adopted a profit sharing scheme on July 5, 2019.

FINAL DIVIDEND

The cumulative distributable profit of the Company as of December 31, 2021 is RMB1,749.0 million (unaudited). Upon completion of the audit procedures, the Company will publish its audited annual results for the year ended December 31, 2021 and announce the decision of the Board of to recommend a final dividend (if any) for the year ended December 31, 2021.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

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

PUBLIC FLOAT

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

DETAILS OF MAJOR EVENTS AFFECTING THE COMPANY AFTER THE END OF THE FINANCIAL YEAR

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

CORPORATE GOVERNANCE

In Compliance with Corporate Governance Code

The Group is committed to maintaining a high standard of corporate governance through an effective board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency to all the Shareholders, to safeguard the interests of its Shareholders and enhance its value and accountability. The Company has adopted the Corporate Governance Code (the "**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, 2021. The Company will continue to review and monitor its corporate governance practices in order to ensure compliance with the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as its own code of conduct regarding Directors' securities transactions. Specific enquiries have been made to all the Directors and each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended December 31, 2021.

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

Audit Committee

The audit committee of the Company (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 primary responsibility of the Audit Committee is to review the Company's financial information, supervise the Group's financial reporting procedures, risk management and internal control systems.

The Audit Committee has reviewed the accounting principles and practices adopted by the Company, and discussed issues relating to internal control, risk management and financial reporting. The Audit Committee has also reviewed the 2021 Preliminary Unaudited Annual Results as set out in this announcement.

REVIEW OF UNAUDITED ANNUAL RESULTS

The 2021 Preliminary Unaudited Annual Results as set out in this announcement have not been approved by the Auditor. The audit procedures of the annual results of the Group for the year ended December 31, 2021 have not yet been completed, mainly due to the fact that a financial staff of the Group's subsidiary in Thailand has been confirmed with novel coronavirus (COVID-19) infection and several other financial staff have therefore been quarantined as close contacts. As a result, the Auditor's on-site audit work in Thailand was halted, which affected its ability to obtain and collect the necessary documents and information for the audit in a timely manner. In view of the current situation of the COVID-19, the Auditor is unable to complete the relevant audit on-site work in Thailand in connection with the audit of the annual results of the Group for the year ended December 31, 2021.

PUBLICATION OF THE UNAUDITED ANNUAL RESULTS ANNOUNCEMENT, FURTHER ANNOUNCEMENT(S) AND ANNUAL REPORT

This preliminary unaudited annual results announcement will be published on the HKEXnews website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.prinxchengshan.com.

Following the completion of the audit procedures, the Company is expected to issue further announcement(s) on or before April 29, 2022 in relation to, among others, (i) the audited annual results for the year ended December 31, 2021 as agreed by the Auditor and the material differences (if any) as compared with the preliminary unaudited annual results contained herein, (ii) the decision of proposed payment of final dividend by the Board (if any); (iii) the proposed date on which the forthcoming 2022 annual general meeting will be held, and (iv) the period during which the register of members holding ordinary shares will be closed in order to ascertain Shareholders' eligibility to attend and vote at the said meeting, as well as arrangements for payment of proposed dividend. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the audit procedures.

The annual report of the Group for the year ended December 31, 2021 is expected to be published and despatched to the Shareholders on or before April 29, 2022 and will be published on the aforesaid website of the HKEXnews of the Stock Exchange as well as the website of the Company.

The financial information contained herein in respect of the annual results of the Group has not been audited and has not been agreed with the Auditor. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Prinx Chengshan Holdings Limited
Che Hongzhi
Chairman and Non-executive Director

Shandong, the PRC,
March 30, 2022

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