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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board of directors (the “**Board**”) of Prinx Chengshan Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries for the six months ended 30 June 2023. This announcement, containing the full text of the 2023 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of interim results. Printed version of the Company’s 2023 interim report will be dispatched to shareholders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and of the Company at www.prinxchengshan.com on or before 30 September 2023.

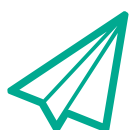


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Corporate Information

Prinx Chengshan focuses on the design, research and development, manufacturing and sales of tires, and is one of the most influential tire enterprises in China. It has two tire production bases in Shandong and Thailand. The Company currently has four brands, namely PRINX (浦林), Chengshan (成山), Austone (澳通) and Fortune (富神), and three product categories, namely All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires, covering passenger, commercial, industrial, agricultural and some special vehicle tires.



Mission and Vision

- Leading tire innovation
- Contributing to smart travel and sustainable development
- Achieving a better life



Core Values

- Customer first, being responsible
- Devotion and professionalism, innovation and opening up



Board of Directors

Executive Directors

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

Non-executive Directors

Mr. Che Hongzhi (*Chairman*)
Mr. Wang Lei
Mr. Shao Quanfeng

Independent Non-executive Directors

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

Audit Committee

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

Nomination and Remuneration Committee

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

Development Strategy and Risk Management Committee

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

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Mr. Shi Futao

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The Landmark
15 Queen's Road Central Hong Kong

Auditor

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

Principal Banks

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

Principal Registrar and Transfer Office

Ocorian Trust (Cayman) Limited
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Hong Kong Share Registrar

Computershare Hong Kong Investor Services
Limited
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Company's Website

www.prinxchengshan.com

Stock Code

1809

Listing Date

9 October 2018

Financial Summary

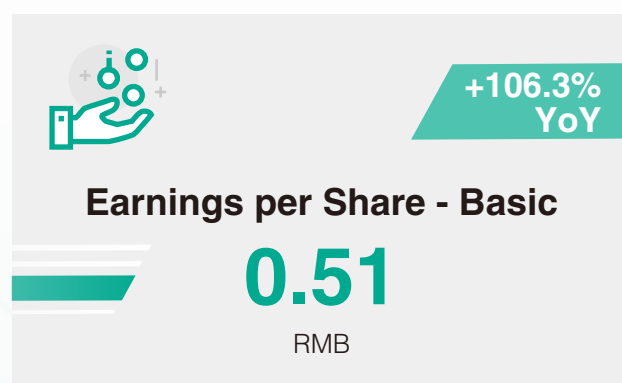
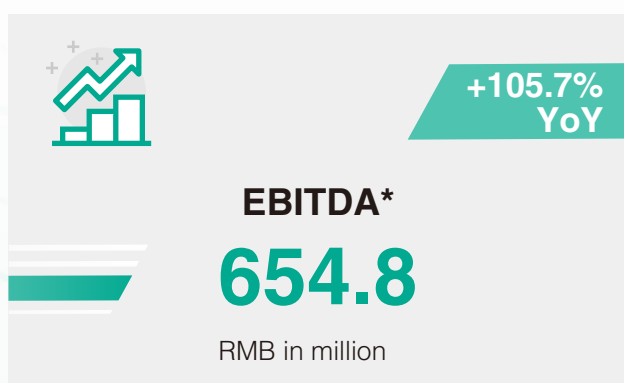
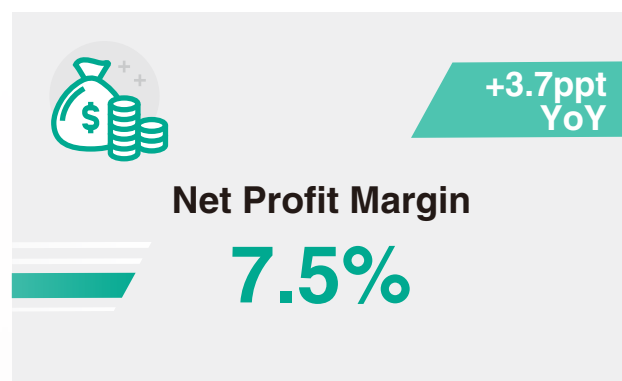
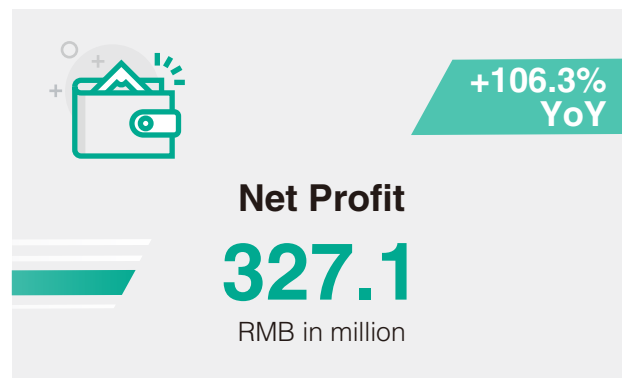
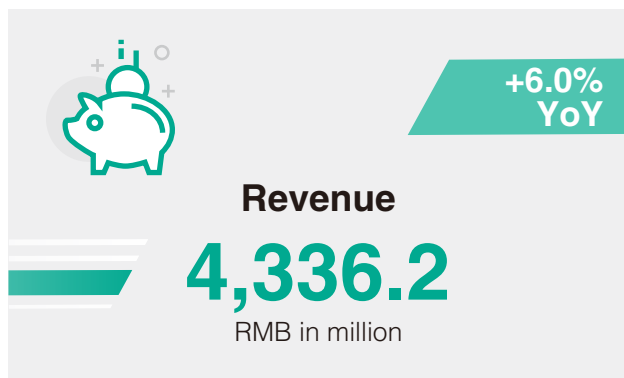
Summary of the Interim Condensed Consolidated Statement of Profit or Loss

	For the six months ended 30 June		For the year ended 31 December
	2023 RMB'000	2022 RMB'000	2022 RMB'000
Revenue	4,336,159	4,091,195	8,151,952
Profit before income tax	378,064	133,034	354,739
Income tax expense	(50,928)	25,563	39,083
Profit for the period/year	327,136	158,597	393,822
Profit attributable to:			
— Shareholders of the Company	327,134	158,577	393,783
— Non-controlling interests	2	20	39
	327,136	158,597	393,822

Consolidated Assets, Liabilities and Non-controlling Interests

	For the six months ended 30 June		For the year ended 31 December
	2023 RMB'000	2022 RMB'000	2022 RMB'000
Total assets	10,028,405	10,313,272	9,985,743
Total liabilities	(5,251,225)	(6,208,052)	(5,533,874)
Non-controlling interests	159	180	161
Equity attributable to shareholders of the Company	4,777,339	4,105,400	4,452,030

Major financial indicators for the six months ended 30 June 2023



* EBITDA is earnings before interests, taxes, depreciation and amortisation

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

Industry dynamics

In the first half of 2023, benefiting from the recovery of China's economy and the increase in overseas market demand, the demand for tire industry recovered significantly. At the same time, the cost of raw materials and marine transportation fees dropped significantly, and the exchange rate of RMB against US dollar continued to decline. Such factors have positive effects on the advanced tire industry in China, in which Prinx Chengshan Holdings Limited (hereinafter referred to as the “**Company**”) and its subsidiaries (the “**Group**” or “**Prinx Chengshan**”) operate in terms of improved sales and profits.

Original equipment (the “**OE**”) and replacement demands for All Steel Radial Tires and Semi-Steel Radial Tires of the Company in domestic market have been improved. In the first half of 2023, sales volume of automobiles, sales volume of heavy-duty trucks, production volume and export volume of tires in China all performed well year-on-year. Production and sales of domestic automobile manufacturers pulled up tire OE. According to the statistical analysis of China Association of Automobile Manufacturers, from January to June 2023, the production and sales volume of China's commercial vehicles reached 1.967 million and 1.971 million, representing a year-on-year increase of 16.9% and 15.8%, respectively; the production and sales volume of passenger vehicles reached 11.281 million and 11.268 million, representing a year-on-year increase of 8.1% and 8.8%, respectively. In the domestic replacement market, the recovery of passenger vehicle tires was better than that of truck and bus tires. Although the replacement demand for truck and bus tires recovered steadily, the demand was still weak due to the sluggishness in the general environment such as real estate, major infrastructure and social retail consumption. The steady growth in ownership of domestic passenger vehicle, coupled with the retaliatory growth in travel and tourism in the post-epidemic era, has led to a surge in the replacement demand for passenger vehicle tires.

In the international market, in the first half of 2023, the overall demand in the overseas market was strong, and the demands in key markets around the world were uneven, presenting different characteristics. In particular, the demands in North America and Europe were sluggish, and the market demands in emerging markets such as the countries in Latin America and Middle East and Africa were strong. According to the statistics of General Administration of Customs of the PRC, the export volume of tires in China achieved double-digit growth in the first half of 2023, which reflected the competitiveness of China's tire industry in the international market.

In recent years, under the background of the escalation of international trade barriers and the disruption of China's tires export, China's tire enterprises have adhered to the international strategic layout, established overseas production bases, and strengthened their international competitive advantages with diversified production capacity layout, intelligent equipments and operation systems.

Management Discussion and Analysis

Operation Review

The Group has been deeply engaged in tire design, research and development, manufacturing and sales for forty-seven years. With the mission and vision of “leading tire innovation, contributing to smart travel and sustainable development, and achieving a better life”, Prinx Chengshan adheres to the core strategy of “cost leadership, efficiency driven, differentiated competition, and global operation”, devotes itself to forging ahead.

During the six months ended 30 June 2023 (the “**Reporting Period**”), the Group sold approximately 11.5 million sets of tires, representing a year-on-year increase of 22.8%. Among them, sales of All Steel Radial Tires amounted to approximately 3.7 million sets, representing a year-on-year increase of 10.9%; sales of Semi-Steel Radial Tires amounted to approximately 7.6 million sets, representing a year-on-year increase of 28.6%; sales of Bias Tires amounted to approximately 0.2 million sets, representing a year-on-year increase of 61.1%. During the Reporting Period, the Group recorded revenue of approximately RMB4,336.2 million, representing a year-on-year increase of 6.0%, and gross profit of approximately RMB823.1 million, representing a year-on-year increase of 53.3%. Profit attributable to owners of the Company for the six months ended 30 June 2023 amounted to approximately RMB327.1 million, representing a year-on-year increase of 106.3%.



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.

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

The Group continued to focus on advanced manufacturing, accelerated intelligent transformation and upgrading, and promoted the high-quality development of the Company through innovation. The Group adheres to the concept of “customer first” and “quality first”, strengthens its quality awareness, implements comprehensive and strict quality control standards, ensures that the products meet the laws and regulations and customer’s special requirements, and makes continuous improvement. During the Reporting Period, in the scientific and technological achievements evaluation conducted by the professional jury organized by China Rubber Association, the Group’s project “research and development of multi-drum all steel radial tire building machine” and the project “technology development of green tire recycle manufacturing mobile service platform” have been appraised as international leading level and international advanced level respectively; the project “research of tire wear mechanism and development and application of irregular wear prediction technology” has been appraised as domestic leading level; the three projects including “development of tires based on special coated self-healing HEALTECH technology for new energy automobiles”, “development of special tires with high endurance and comfort for electric vehicle” and “design and development of high-performance 275/80R22.5 low-rolling resistance tire OE products” have been appraised as domestic advanced level.

During the Reporting Period, the Group’s tire production base in Shandong (hereinafter referred to as the **“Tire Production Base in Shandong”**) completed a total of 97 Lean Six Sigma projects, and all employees participated in improvement activities. In the first half of 2023, a total of 1,018 rationalisation proposals were approved and implemented.

The Group’s tire production base in Thailand (hereinafter referred to as the **“Tire Production Base in Thailand”**) adopts first-class manufacturing equipment, leading design concepts, intelligent manufacturing and management models, and conducts R&D based on the standards for green intelligent manufacturing, marking a solid step of Prinx Chengshan towards the target of global development. At present, the Tire Production Base in Thailand has obtained ISO 9001 (quality system certification), ISO 14001 (environmental management system), ISO 45001 (occupational health management system) and Thailand Green Factory Level III certification, and has obtained certificates in 8 regions including Thailand TISI certification, SMARTWAY certification, EU ECE and R117 certification.

(II) 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 and managed inventory to form a closed-loop management process system integrating customer, production, procurement, logistics and sales.

During the Reporting Period, the Group introduced domestic and overseas quality suppliers, which not only met the Company’s high quality requirements for purchased materials, but also made the procurement costs more reasonable. In the event of large changes in orders, the Group has realized the opening up of new sources of income and reduction of costs in the procurement of raw materials by forecasting the demand for raw materials through anticipating the trend of changes in market demand. Meanwhile, the Group has continued to improve the information management system of the supply chain and established a visual and traceable database to improve the accuracy and compliance rate of the procurement plan and to provide guidance for future procurement work. The Group has continued to optimize warehousing management and process improvement by realizing electronic processes and documents and setting up inventory alert function to ensure the validity and accuracy of loading plan.

(III) Optimize channel distribution to achieve the growth in sales volume and revenue

During the Reporting Period, the Group's overall sales volume and revenue rose year-on-year, among which, the sales volume and revenue of domestic distributors and direct sales to automobile manufacturers channels increased significantly year-on-year.



Distributor channels

Domestic distributors

Commercial vehicle tire replacement channel

The Group has a relatively high penetration rate in the replacement market for All Steel Radial Tires in the PRC. In the first half of 2023, despite the slow recovery and weak demand in the domestic commercial vehicle tires replacement market, the Group's sales volume and profit in the commercial vehicle tire replacement channel increased significantly year-on-year. Since 2023, the Group has facilitated the digital transformation of retail stores and enhanced its comprehensive operation capability relying on a new business model "lighthouse e-station". The former five-star store customers and four-star store customers have entered in the system.

The Group has changed its commercial vehicle tire replacement channel from the original offline star store sales model to an online digital model, and has implemented precise positioning of customer groups and launched membership stores of platinum card, gold card, silver card and general card. In the first half of 2023, the Company has newly opened 1,014 platinum card member stores, 292 gold card member stores and 270 silver card member stores. Through the transformation of business model, customer segmentation has become more refined and precise, increasing the stickiness of distributors, strengthening their loyalty to the Company, and playing a complementary role in market standardization. The accumulative contribution of the stores accounted for approximately 57.3% (43.4% for the first half of 2022) of the Group's total domestic sales volume of replacement channel of All Steel Radial Tires, representing a year-on-year increase of 13.9 percentage points.



Management Discussion and Analysis

Passenger vehicle tire replacement channel

According to the strategic plan, the Group continued to expand the business scale of passenger vehicle tires replacement channel. During the Reporting Period, the Group's sales volume of passenger vehicle tire replacement channels increased significantly year-on-year through the organization of marketing activities such as the "Spring Promotion" and "Thousands of People and Thousands of Stores, Walking into Chengshan", and the products were in short supply. Meanwhile, the Group continued to optimize the product structure of passenger vehicle tire replacement channels, with the sales volume of new products and the large-size products increasing significantly year-on-year.

The Group actively utilizes digitalization to empower its sales business. During the Reporting Period, the Group continued to optimize the systematic functions of the "Xiaopu Cloud Store" and "Xiaopu Steward" systems. Xiaopu Cloud Store is a full channel digital management system for the passenger vehicle tire replacement business, and Xiaopu Steward is an intelligent mobile office platform specially designed for dealers and salespersons. Consumers can place orders and make payments through Xiaopu Cloud Store, and distributors and salespersons can check inventory and obtain timely sales data and analysis reports through Xiaopu Steward, which helps users adjust their business strategies in a timely manner and ensures that the policies accurately reach the users. 19,128 stores have been registered so far. In March 2023, the Group formally launched the "Visit Pass" APP, and made a total of 2,077 visits to retail stores in the first half of 2023, making the management of channel business more professional and refined. The management of the Group's passenger vehicle tire replacement channels has reached a new level. During the Reporting Period, the Group developed 31 new distributors in the passenger vehicle tire replacement sales channel, with a contracted volume of over 300,000 sets.



During the Reporting Period, the Group's revenue from domestic distributor channels amounted to approximately RMB1,128.5 million, representing an increase of 29.4% from approximately RMB872.3 million for the same period of 2022.

International Marketing

In the first half of 2023, the overall demand in the overseas market was strong, and the demands in key markets around the world were uneven, presenting different characteristics, among which, the demands in North America and Europe were sluggish, and the demands in the markets such as Latin America and Middle East and Africa were strong. The Group's international marketing has been developed in a balanced manner in various regions, and the layout and expansion of overseas sales channels have achieved remarkable results.

During the Reporting Period, the Group launched 61 new overseas distributors in 36 countries around the world. The revenue from international marketing amounted to approximately RMB2,727.0 million, representing a year-on-year decrease of approximately 5.5% from RMB2,887.1 million for the same period in 2022, among which, approximately 44.5% of the revenue was generated from the Tire Production Base in Thailand (same period in 2022: 56.2%), and approximately 55.5% of the revenue was generated from the Tire Production Base in Shandong (same period in 2022: 43.8%).

With excellent products and services, Prinx Chengshan has gained a good market reputation in overseas markets, with over 300 distributors worldwide across six continents, covering 169 countries and regions across China and abroad. During the Reporting Period, the Group successfully completed the new launch and sales of the PRINX brand in the European market.



In May 2023, the brand PRINX (“**PRINX**”) officially entered the European market

Direct sales to automobile manufacturers

During the Reporting Period, benefiting from the recovery of domestic market demand for commercial vehicles, the sales volume and profit of the Group in the OE channels increased significantly. The Group has achieved comprehensive and balanced development in the market of commercial heavy-duty trucks, medium-duty trucks and light trucks, and maintained a high level of cooperation with the top five automobile manufacturers in various market segments. The proportion of OE export of heavy-duty and medium-duty trucks tires for commercial vehicles continued to increase. The OE business of passenger vehicle has been included in the cooperation with passenger vehicle manufacturers such as BYD, Guangzhou Automobile and JMEV. As at the date of this report, JMEV has been supplied in batches, and BYD has been approved; at the same time, the Group has maintained high-quality cooperation with national logistics enterprises in the long haul, medium-to-short haul transportation and regional transportation.

As at the end of the Reporting Period, the Group has included a total of 62 automobile manufacturers as suppliers. Through cooperation with automobile enterprises, it can promote the improvement of the Group's research and development level and better meet the needs of customers. In June 2023, Prinx Chengshan was once again listed as one of the "2023 Top 100 Automobile Suppliers in China" by virtue of its achievements in high-quality development.

During the Reporting Period, the Group's revenue from direct sales to automobile manufacturers amounted to approximately RMB480.7 million, representing an increase of 44.9% compared to approximately RMB331.8 million in the same period of 2022, mainly due to the recovery of the domestic demand for commercial vehicles.

(IV) Development of both products and brand

During the Reporting Period, the Group continued to pursue high-quality development and further optimized and upgraded its existing system around "products + services". In the domestic market, the Group has created products with advantages in each channel based on market segments; in the international market, the Group has created a differentiated product matrix that meet international standards based on the characteristics of each region. The new products launched by the Group have received good feedback, among which, Chengshan's flagship product of the "Hua" series, "Hua Ren Tire", was awarded the "Best Popularity Award" of Golden Objects Award, and Chengshan CFH123A was recognized as the "Truck Brothers' Trustworthy Product". At the same time, the Group provided flexible and varied support to different sales channels to promote sales business expansion in multiple dimensions and enhance user experience.



In April 2023, Hua Ren X-TRIP of Chengshan brand was awarded the "Best Popularity Award" of Golden Objects Award



In April 2023, Chengshan CFH123A was awarded the "Truck Brothers' Trustworthy Product"

The Group has adopted a multi-brand and differentiated communication strategy to strengthen its promotion and sales support for new products in its channels through various forms of communication such as CCTV promotion, domestic and foreign social media and short videos. The Group's "Chengshan" brand was included in the list of "China's 500 Most Valuable Brands" in 2022, with a brand value of RMB38.195 billion.



In July 2023, Prinx Chengshan participated in "Consumption Proposition" of CCTV-2 financial channel

With the rapid development of overseas market business, the Group accelerated the internationalization of its brands. In May 2023, PRINX ("PRINX"), a brand of the Group, held a grand launch event in Milan, Italy, officially announcing its arrival in the European market, which gained widespread attention. European customers not only gained an in-depth understanding of the future development strategy of PRINX ("PRINX"), but also experienced the international standard design and performance of PRINX ("PRINX") at a close distance. As a premium brand launched by the Group, PRINX ("PRINX") met European customers with a brand new image this time. With excellent product strength and quality service, it interpreted the brand's philosophy of "helping every user to explore a better life with perceptible technology", fully demonstrating its internationalization and inclusiveness as an emerging domestic brand.

Fortune Tires ("Fortune Tires"), a brand of the Group, has become the official and exclusive tire sponsor of USA Pickleball ("USA Pickleball") in the United States. With the concept of "Driving Forward", it has built a deeper connection with North American users and is committed to becoming a promoter of an active lifestyle in the region.

Management Discussion and Analysis

The Group has successively appeared at major international exhibitions such as Tyrexpo Asia 2023 in Singapore and AutoZum in Austria to enhance cooperation and exchanges with overseas partners and users. The Group's influence in overseas markets continues to grow. In the "Tire Business ranks Top 75 global tire makers in 2023" published by Tire Business in the United States, Prinx Chengshan ranked 28th. The list was ranked by the enterprises' sales related to tire manufacturing in 2022.



In June 2023, Prinx Chengshan participated in the AutoZum Auto Show in Austria



In March 2023, Fortune Tires became the official and exclusive tire sponsor of USA Pickleball in the United States

(V) Innovative sales model

The Group promotes its service brand “Zhianda” under the tire leasing model of “Digitization + Products + Services”, and is committed to creating value for fleet customers with standardized and digitized tire solutions, and leading fleet services with the intelligent application innovations of tires. “Zhianda” takes truck and bus tire leasing as the entry point, and through the application of RFID (Radio Frequency Identification Technology), TPMS (Tire Pressure Monitoring System) and other intelligent technologies, it can effectively improve the tire safety and operation efficiency of fleet customers, reduce the comprehensive use costs of customers, and ultimately achieve the management of the whole life cycle of tires. At the same time, “Zhianda Model” organically combines vehicle maintenance and tire leasing to help customers with refined management and create value for customers.

Through the Zhianda Model, the Group has established its presence in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, the most developed regions in China’s logistics industry, covering a variety of transportation types such as transportation of hazardous chemicals, express delivery, public transportation and port transportation. During the Reporting Period, the innovative sales model — “Zhianda” was in steady growth in terms of number of customers and service income.

(VI) Production capacity

The Group’s the Tire Production Base in Shandong currently has a production capacity of 7.4 million sets/year of All Steel Radial Tires and 11.2 million sets/year of Semi-Steel Radial Tires, and the Tire Production Base in Thailand currently has a production capacity of 2 million sets/year of All Steel Radial Tires and 8 million sets/year of Semi-Steel Radial Tires. In the first half of 2023, the capacity utilization rate of All Steel Radial Tires/Semi-Steel Radial Tires at the Tire Production Base in Shandong was 86.5%/96.3%, respectively, and the capacity utilization rate of All Steel Radial Tires/Semi-Steel Radial Tires at the Tire Production Base in Thailand was 63.4%/80.9%, respectively.

The upgrading and renovation of the intelligent logistics system for the Semi-Steel Radial production line of the Tire Production Base in Shandong of the Group, which was launched in the first half of 2022, completed the construction in the first quarter of 2023. Its production efficiency has been enhanced through the application of intelligent products such as AGV trolleys, vertical warehouses and EMS.

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

The Group always grasps the development trend of the global automobile and tire industry, insists on scientific research and innovation as the basis. Relying on the platforms of the Company's 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, it is market-oriented, pursues green, low-carbon, sustainable development, and is committed to creating high-performance, high-quality and high-value-added tire products, so as to continuously inject new momentum into the Company's development through technological innovation.

During the Reporting Period, the Group increased its investment in research and development, continuously enhanced its comprehensive testing capabilities of design and development, and completed the construction of a noise laboratory, which shortened the development cycle of low-noise pattern tires; during the Reporting Period, the Group completed the research and development of a total of 193 new products, and at the same time, further strengthened the construction of the PLM (Product Lifecycle Management, hereinafter referred to as the "PLM") R&D platform, which enhanced the Company's digital R&D and design capabilities. In terms of new technologies, the Group made breakthroughs in major technologies such as Class A rolling resistance technology, wet grip technology, bead reinforcement and improvement technology for heavy-duty products as well as multi-composite bead reinforcement technology. In terms of new processes, the Group's one-touch start technology, multi-composite components processing technology and infinite winding technology have been promoted and applied in an industrialized manner, which has improved the stability of components as well as the consistency of the quality of the finished products.

As at the end of the Reporting Period, the Group has been granted 347 intellectual property rights, including 16 invention patents, 181 utility models, 150 design patents.

(VIII) Organizational management and corporate culture building

The Group focuses on improving organizational efficiency. In order to meet the needs of the Company's current operation and functioning as well as its future development, the Group continues to optimize its organizational structure, improve its standardized operational processes and regulate its management. During the Reporting Period, through the establishment and continuous optimization of core values processes, the Group broke through the inherent habits and barriers of its business segments and achieved efficiency improvement of business processes, improvement of work efficiency and enhancement of human resources efficiency, and increase in the breadth and depth of its businesses.

The Group actively attracts talents, pays attention to the integration of external talents with the corporate culture, and conducts multi-field and multi-level training to enhance the cohesion and business expertise of the team. During the Reporting Period, the Group actively conducted the construction of corporate culture and cultivated the employees in key positions of the Company to become high-quality talents with multiple capabilities based on a post or a major. At the same time, the Group takes the customers as the center to create a good service image that puts customers first, and takes the employees as the center to create a dedicated and professional culture to enhance corporate cohesion and centripetal force. In terms of the operations of overseas plant, the Group is committed to enhancing the cultural awareness of the staff in Thailand, where our overseas plants are located, promoting the integration and communication between the employees in China and Thailand, and continuing to adhere to the principle of “Full Communication, Respect and Tolerance, Smooth Transition, and Learning from Innovation”, so as to create a result-oriented and value-driven integrated new culture.

(IX) Intelligent manufacturing and information construction

The Group continued to promote the construction of smart factories. During the Reporting Period, the Group established an industrial internet platform jointly with a number of companies to achieve comprehensive inter-connexion between internal operations and upstream and downstream enterprises, as well as overall optimisation of the allocation of resources in the industrial chain, so as to comprehensively improve the intelligence level of the Group in resource allocation, process optimization, process control, quality control and traceability, and safety production. The Tire Production Base in Shandong continued to promote automatic production scheduling management. Combined with the PLM and MES (Manufacturing Execution System) systems, it combined planning with factory production flexibility to achieve overall automatic production scheduling and optimise production efficiency. The Tire Production Base in Thailand has realised the digitization of product manufacturing for the entire production process, and steadily improved operational efficiency and product quality.

The Group provides big data services for production and quality through the establishment of a big data centre to collect and analyse data on process, quality, equipment, production, energy and other indicators from multiple dimensions. At the same time, the Company established a production information security system, strengthened the information security prevention at the network level, and improved the risk resistance capacity.

The Group has built a global official website for the brand, a convenient terminal APP, a lighthouse e-station for promoting commercial tire sales and a comprehensive international CRM (Customer Relationship Management) system, which have comprehensively enhanced the Company’s brand image, improved customer experience and effectively supported the Company’s sales performance growth.

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 193 products, including 25 All Steel Radial Tires and 168 Semi-Steel Radial Tires, further improving its market competitiveness in different channels and market share in various market segments. At the same time, the Group developed 22 All Steel Radial Tires and 7 new patterns and products of Semi-Steel Radial Tires according to the demand in the OE market, the development trend of the replacement market and the expansion of overseas markets.

During the Reporting Period, the Group strived to build a high-value and high-connnotative product matrix according to the market competition situation to enhance product competitiveness. Among them, in terms of all steel radial tires, the Group focused on key market segments, focused on creating a new generation of green and environmental protection products with low rolling resistance and high wear resistance, and pursued global environmental protection and sustainable development; in terms of Semi-Steel Radial Tires, the Group aimed to create a new generation of high-performance tires and new energy tires based on the advanced tire design and manufacturing concept, in response to the market change trend and in line with the brand renewal strategy.

In terms of Semi-Steel Radial Tires (passenger vehicle tires) products, the Group launched the first urban SUV tire of Chengshan Hua series in China — “Huayue SUV Tire”, which is positioned as a comfortable and enjoyable tire, and continues the excellent overall performance, unique advantageous performance and stunning detail design of the flagship products of the “Hua” series, so as to be committed to providing users with a brand-new driving experience on the road. At the same time, the Group also actively deployed the international market and developed all series of new products including North American R/T, light trucks and European Prinx summer, all-season and winter tires.

In terms of All Steel Radial Tires (commercial vehicle tires) products, the Group launched metric tires such as AR603, FH136, TH135, which have reached international standards in a number of performances and received good market feedbacks; the products such as CFH138A, DH139, which have broken through the key technology of ultra-low rolling resistance, and the former has reached the EU Label Class A standard, further consolidating the Company’s advantages in the field of low rolling resistance and ultra-low rolling resistance technology; in the field of passenger transportation with the rapid popularization of new energy vehicles, C901 special tires for electric bus launched by Prinx Chengshan have achieved long mileage, high durability and intelligence through innovative tire compound formulae, and the driving mileage of electric buses has reached 104% of the benchmark products in the industry, winning the First Prize of Shandong Provincial Technological Innovation.

Product category	Total sales volume of the Group's products and sales volume of new products developed during the Reporting Period		
	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	123.6	369.5	33.5%
Semi-steel Radial Tires	278.5	761.3	36.0%
Bias Tires	1.1	22.9	4.8%
Total	403.2	1,153.7	34.6%

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

Business sustainability is a continuing concern of the Group. Currently, environmental, social and governance matters have been included in the duties scope of the Group's Development Strategy and Risk Management Committee. The Board takes full responsibility of and leads the Group's sustainable development management. Adhering to the green development philosophy, the Group is committed to building first-class green modern enterprises by improving the environmental management system and related policies, implementing environmental protection responsibilities. As one of the first batch of “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, and the energy consumption per tonne of the Group's All Steel Radial Tires and Semi-Steel Radial Tires both are better than the requirements of the industry's Class 1 energy consumption standard. During the Reporting Period, the Group launched the “Carbon Footprint” project at the Tire Production Base in Shandong, which helped the Group to take corresponding measures to protect the environment and reduce emissions, carry out various green and environmental protection works in daily operations to meet domestic and foreign policy requirements and green consumption demands and boost its sustainable development by understanding the Company's carbon emission data.

During the Reporting Period, the Group had established a friendly relationship with local government authorities and the public in Thailand. During the Reporting Period, the Group participated in a modern technology seminar on corporate waste management organized by the Thai Government and an award ceremony organized by the Thai Government's Security Bureau in 2022 which has been reviewed and approved by the standards of occupational safety, health and environmental management systems in developing enterprises and received an honorary certificate. In June 2023, the Group participated in the “Planting Activity” jointly organized by Nongsecang Town Government and the Department of Industry of Thailand and donated items; at the same time, the Group actively organized social responsibility activities in Thailand and donated plastic water tanks and daily necessities for children to Nongsecang Kindergarten.

BUSINESS STRATEGIES AND PROSPECTS

As at the date of this report, orders received by the Group continue to grow steadily, and the Tire Production Bases in Shandong and Thailand reach full capacity. Looking forward to the second half of 2023, there will be uncertainties in the prospects of global economic development due to the impact of continuous inflation, high interest rate environment and international geopolitical risks and trade conflicts. It is expected that the international market demand for tires will remain strong in the third quarter and might decline in the fourth quarter. In the domestic market, the country promotes high-quality development through high-end innovation, stimulates and expands internal demand, and continues to boost economic development. China's economy is expected to recover in the second half of 2023. A number of "imbalances and mismatches" factors in domestic economic development have limited the growth of economic recovery, and the domestic sales of truck and bus tires would bear the brunt. The sales of passenger vehicle tires will also increase at a medium-low rate due to the restrictions such as residents' income and urban vehicle environment.

In view of the complex and ever-changing market conditions and economic environment, Prinx Chengshan has been adopting stringent financial discipline and prudent management, persevering in promoting the implementation of strategies, improving the business level of each module and boosting sales growth.

- (1) Adhere to the "cost leadership" strategy, deepen the cost consciousness of all employees and build an efficient operation system.
- (2) Continue to deepen tire technology innovation and R&D, open to the market and customers, and create value through technology application.
- (3) Firmly promote the strategy of "product + service" and enhance the market expansion and sales capabilities of all channels and categories.

In the domestic commercial vehicle tire replacement market, the Group will continue to optimise the sales structure, use the "Lighthouse E Station (燈塔e站)" to empower our sales and carry out the "road assistance" joint service function.

In the passenger vehicle tire replacement market, the Group will make full use of the existing resources and rely on the advantages of combining online and offline channels to ensure the maximisation of sales profit through channel penetration.

In terms of commercial vehicle tire and passenger vehicle tire OE market, the Group will strengthen cooperation with existing OEMs, continue to increase the proportion of OE. At the same time, the Group will develop further cooperation on new vehicle models and projects, and the commercial vehicle and passenger vehicle businesses will enjoy mutually reinforcing progress.

In the international market, the Group will seize the market opportunities and take advantage of the current cost advantages to maintain stable order demand while increasing market share and overall profit level.

- (4) “Zhianda” smart travel service: The Group continues to provide customers with a package of solutions for the post-commercial vehicle market. Through the combination of vehicle maintenance and tire leasing with truck and bus as the entry point, and through RFID, TPMS and other intelligent service equipment as the carriers, the Company has realised smart resource synergy, satisfied customers’ travel safety needs, and continuously created value for customers.
- (5) Pursue green and sustainable development. The Company promotes the use of new environmentally friendly materials, strengthens the research on tire renovation technology, recycling of rubber materials, and the application of bio-based materials, and increases efforts in energy conservation and consumption reduction, so as to make its due contributions to carbon peak and carbon neutrality in China.
- (6) Focus on the construction of talent team and facilitate the comprehensive development of enterprises. Based on the strategic development needs of the Company, the Group continues to optimise the organisational structure and process management, while actively attracting talents, cultivating and improving the comprehensive capabilities of the Group’s employees, and further improving the team cohesion and business professional capabilities to meet the needs of the Company’s long-term development.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2023, revenue of the Group amounted to approximately RMB4,336.2 million, representing an increase of approximately RMB245.0 million (or 6.0%) compared to approximately RMB4,091.2 million for the six months ended 30 June 2022.

Sales by product type	For the six months ended 30 June 2023 RMB'000	For the six months ended 30 June 2022 RMB'000
All Steel Radial Tires	2,774,811	2,615,379
Semi-Steel Radial Tires	1,493,807	1,431,360
Bias Tires	67,541	44,456
Total	4,336,159	4,091,195

For the six months ended 30 June 2023, revenue from sales of all steel radial tires increased by approximately 6.1% from approximately RMB2,615.4 million for the six months ended 30 June 2022 to approximately RMB2,774.8 million, which is a combined effect of the year-on-year increase of 10.9% in sales volume and the year-on-year decrease of 4.3% in average unit price; and revenue from sales of semi-steel radial tires increased by approximately 4.4% from approximately RMB1,431.4 million for the six months ended 30 June 2022 to approximately RMB1,493.8 million for the six months ended 30 June 2023, which was primarily attributable to the year-on-year increase of 28.6% in sales volume and the year-on-year decrease of 18.9% in average unit price. Revenue from sales of bias tires increased by approximately 51.9% from approximately RMB44.5 million for the six months ended 30 June 2022 to approximately RMB67.5 million for the six months ended 30 June 2023, which was primarily attributable to the year-on-year increase of 61.1% in sales volume.

Management Discussion and Analysis

Sales by channel	For the six months ended 30 June 2023 RMB'000	For the six months ended 30 June 2022 RMB'000
Distributors		
Domestic	1,128,462	872,308
International	2,726,983	2,887,073
	3,855,445	3,759,381
Direct Sales to Automobile Manufacturers	480,715	331,814
Total	4,336,159	4,091,195

For the six months ended 30 June 2023, revenue from sales to distributors (including private label customers) increased from approximately RMB3,759.4 million for the six months ended 30 June 2022 to approximately RMB3,855.4 million, representing an increase of 2.6% compared to the same period last year, which was primarily attributable to the increase in revenue from domestic distributors by 29.4% compared to the same period last year as a result of the recovery of demand from domestic tire industry and the Company's efforts to seize market opportunities. However, revenue from international distributors decreased by 5.5% compared to the same period last year as a result of the uneven demand from overseas key markets and the sluggish demand from North America and Europe.

For the six months ended 30 June 2023, revenue from sales to automobile manufacturers increased from approximately RMB331.8 million for the six months ended 30 June 2022 to approximately RMB480.7 million, representing an increase of 44.9% compared to the same period last year, which was mainly due to the comprehensive and balanced development of the Company in the market of commercial heavy-duty trucks, medium-sized trucks and light trucks.

Cost of Sales

The Group's cost of sales decreased from approximately RMB3,554.3 million for the six months ended 30 June 2022 to approximately RMB3,513.1 million for the six months ended 30 June 2023, representing a decrease of approximately 1.2%. The decrease was mainly due to the decrease in unit cost resulting from the decrease in raw material prices.

Gross Profit and Gross Profit Margin

The Group's gross profit for the six months ended 30 June 2023 amounted to approximately RMB823.1 million, representing a year-on-year increase of approximately 53.3% compared to the gross profit of approximately RMB536.9 million for the six months ended 30 June 2022, which was mainly due to the Group's continuous adjustment of product structure and business structure, the significant increase in product sales volume and the increase in gross profit per unit. The gross profit margin for the six months ended 30 June 2023 was 19.0%, representing a year-on-year increase of approximately 5.9 percentage points from 13.1% for the six months ended 30 June 2022, which was mainly due to the decrease in the price of raw materials and the significant increase in the utilisation rate of the production capacity of the Tire Production Base in Shandong.

Other Income

The Group's other income for the six months ended 30 June 2023 amounted to approximately RMB24.9 million, representing an increase of RMB4.1 million from approximately RMB20.8 million for the six months ended 30 June 2022. The increase was mainly due to a year-on-year increase of RMB3.4 million in government grants and a year-on-year increase of RMB0.7 million in the income from sales of scrap.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately RMB23.6 million from approximately RMB222.4 million for the six months ended 30 June 2022 to approximately RMB245.9 million for the six months ended 30 June 2023, representing a year-on-year increase of approximately 10.6%. The increase was primarily due to the corresponding increase in the variable selling expense due to the increase in sales volume.

Research and Development Costs

The Group's R&D costs increased by approximately RMB14.4 million from approximately RMB112.3 million for the six months ended 30 June 2022 to approximately RMB126.7 million for the six months ended 30 June 2023, representing an increase of approximately 12.9% year on year. The increase was mainly attributable to the increase in investment in R&D.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB81.0 million and RMB96.3 million for the six months ended 30 June 2023 and 2022 respectively, representing a decrease of approximately 15.9% year on year. The decrease was mainly attributable to the Company's cost reduction and efficiency enhancement and strict management of administrative expenses.

Other Gains/(Losses)

The Group's other gains amounted to approximately RMB17.2 million and RMB30.8 million for the six months ended 30 June 2023 and 2022, respectively. This was mainly due to the exchange gain arising from the change in exchange rate between RMB and USD.

Finance Income

For the six months ended 30 June 2023 and 2022, the Group's finance income amounted to approximately RMB9.6 million and RMB3.0 million respectively. The increase in finance income was due to the increase in interest income on bank deposits.

Management Discussion and Analysis

Finance Costs

For the six months ended 30 June 2023 and 2022, the Group's finance costs amounted to approximately RMB44.2 million and RMB27.8 million respectively. The increase in finance costs was mainly due to the increase in interest on borrowing.

Operating Profit

For the six months ended 30 June 2023, the Group's operating profit amounted to approximately RMB412.5 million, representing an increase of approximately RMB254.8 million from the same period last year. The increase in the operating profit was primarily due to the increase in gross profit.

Income Tax Expense

The income tax expense of the Group changed from income tax gains of approximately RMB25.6 million for the six months ended 30 June 2022 to income tax expense of approximately RMB50.9 million for the six months ended 30 June 2023, representing an increase of approximately RMB76.5 million, which was due to the year-on-year increase in profit of Prinx Chengshan (Shandong) Tire Co., Ltd. ("**Prinx Shandong**"), a wholly-owned subsidiary of the Company, during the Reporting Period, resulting in the increase in income tax.

Profit for the Period

Profit during the Reporting Period increased by RMB168.5 million from RMB158.6 million for the six months ended 30 June 2022 to approximately RMB327.1 million. Such increase was mainly due to the increase in operating profit.

Profit Attributable to Shareholders of the Company

Due to the above factors, for the six months ended 30 June 2023 and 2022, the profit attributable to shareholders of the Company amounted to approximately RMB327.1 million and RMB158.6 million respectively.

Total Comprehensive Income for the Period

Total comprehensive income for the Reporting Period increased by RMB148.5 million from approximately RMB289.5 million for the six months ended 30 June 2022 to approximately RMB438.0 million. The increase in income was primarily a combine effect of the increase in net profit for the period of approximately RMB168.5 million, and the foreign currency statement translation income is incurred by entities whose functional currency is foreign currency.

Liquidity and Financial Resources

Generally, the cash flows generated within the Group and bank loans are the source of its working capital. By far, the Group maintained a sound financial position. The Group's borrowing demand was not seasonal. As at 30 June 2023, the Group had approximately RMB989.2 million in cash and cash equivalents (including restricted cash), representing a decrease of approximately RMB183.5 million as compared to that as at 31 December 2022 (approximately RMB1,172.7 million), which was mainly due to the use of cash generated from operating activities for repayment of bank loans and payment of dividends. As at 30 June 2023, the Group had bank borrowings of approximately RMB1,771.8 million (31 December 2022: approximately RMB2,203.3 million), of which, approximately RMB783.2 million was denominated in RMB and the rest was denominated in USD. Borrowings at floating interest rates accounted for 38.86%, and borrowings at fixed interest rates accounted for 61.14%. Approximately RMB1,316.8 million will be due within one year and approximately RMB455.1 million will be due within one to five years. During the Reporting Period, the borrowings were mainly used to meet the demand of export seller credit loan and capital expenditure. For details of the Group's bank loans, please refer to Note 22 to the consolidated financial statements.

The current ratio as at 30 June 2023 was approximately 0.95 (31 December 2022: approximately 1.1). During the Reporting Period, the Company purchased banks' low-and-medium-risk wealth management products to increase financial returns. As at the end of the Reporting Period, the net balance of such wealth management products was approximately RMB82.7 million.

Inventories

As at 30 June 2023, the inventories of the Group amounted to approximately RMB1,276.3 million, representing a decrease of approximately RMB1.1 million from approximately RMB1,277.4 million as at 31 December 2022, which was due to the Company's strategy of strengthening inventory management.

Trade and Notes Receivables

As of 30 June 2023, accounts receivables of the Group were approximately RMB1,550.0 million, representing an increase of approximately RMB237.5 million from approximately RMB1,312.5 million as at 31 December 2022. The increase was attributable to the increase in sales revenue.

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

As at 30 June 2023, prepayments, other receivables and other current assets included in current assets of the Group were approximately RMB318.8 million, representing a decrease of approximately RMB18.3 million as compared to RMB337.1 million as at 31 December 2022. This decrease was mainly due to the decrease in the prepayments of raw materials.

Financial Assets at Fair Value through Profit or Loss

As at 30 June 2023, the Group's financial assets at fair value through profit or loss were approximately RMB115.7 million, representing a decrease of approximately RMB145.4 million from approximately RMB261.1 million as at 31 December 2022. The decrease is primarily attributable to the decrease in the funds for purchase of wealth management products.

Amounts Due from Related Parties

The Group's amounts due from related parties increased from approximately RMB126.4 million as at 31 December 2022 to approximately RMB168.3 million as at 30 June 2023, representing an increase of approximately RMB41.9 million. The increase was primarily due to the Company's amounts due from related parties, China National Heavy Duty Truck Group Co., Ltd. and its subsidiaries, and amounts due from Hebei Prinx Chengshan Tire Co., Ltd. increased by RMB32.9 million and approximately RMB9.0 million, respectively.

Trade Payables

As of 30 June 2023 and 31 December 2022, the Group's trade payables amounted to approximately RMB1,999.9 million and RMB2,000.3 million, respectively, representing a decrease of approximately RMB0.4 million, which was basically the same.

Other Payables and Accruals

As at 30 June 2023 and 31 December 2022, the Group's other payables and accruals amounted to approximately RMB1,171.1 million and RMB1,071.3 million, respectively, representing an increase of approximately RMB99.8 million, which was mainly due to the acceptance of purchased machinery and equipment and the corresponding increase in payables for machinery and equipment.

Management Discussion and Analysis

Prepayments included in Non-Current Assets

As of 30 June 2023 and 31 December 2022, the Group's prepayments included in non-current assets amounted to approximately RMB7.0 million and RMB8.9 million, respectively, representing a decrease of approximately RMB1.9 million. This decrease was mainly due to the decrease in prepayments for purchase of equipment.

Gearing Ratio

As at 30 June 2023, the gearing ratio was 14.3% (31 December 2022: 19.1%). This ratio was calculated as net surplus/debt divided by total capital. Net surplus/debt was calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital was calculated as total equity plus net surplus/debt.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus has maintained a healthy liquidity position throughout the six months ended 30 June 2023. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. The Group will take serious consideration of purchasing wealth management products to increase financial returns.

Pledge of Assets

As at 30 June 2023, the Group's property, plant and equipment with a net book value amounting to approximately RMB3,932.5 million (31 December 2022: approximately RMB3,757.0 million) and restricted cash balances amounting to approximately RMB152.3 million (31 December 2022: approximately RMB190.6 million) were pledged as security for the Group's bank borrowings and notes payable it issued. Save for the above, the Group did not have any charges on its assets.

Investment

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

The Group has initiated the expansion plan of Prinx Shandong in the second half of 2020. The total investment of the project is approximately RMB666.0 million, which increased 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. The designed production capacity has been achieved in the first quarter of 2022.

Save as disclosed above, the Group did not have any other new significant investments for the six months ended 30 June 2023.

EXPOSURE TO RISKS

(I) Macro environment risks

In 2023, the global economy showed a recovery trend. In the second half of the year, the economic operation is facing new difficulties and challenges, with insufficient domestic demand, numerous risks and hidden dangers in key areas, and a complex and grim external environment. The economic recovery has undergone a wave-style development and tortuous progress due to the full lifting of pandemic prevention and control in China. In the second half of 2023, the domestic tire industry will face the risk of a decline in gross profit as affected by a number of factors such as unstable supply chain and fierce competition in sales. The Group will focus on the development opportunity of “dual circulation” and seek for technological innovation to improve the performance and durability of tires. In addition, with the advance of technology and the increasing awareness of environmental protection, the Group will continue to strive to provide safe, environment-friendly and high-performance products to meet the changing market demand.

(II) Exposure to Foreign Exchange Risks

Given the fluctuations in the global economy and the tightening and easing of monetary policies by different countries, the Group may be exposed to the risk of exchange rate fluctuations. For the six months ended 30 June 2023, the Group's revenue denominated in USD from overseas operations accounted for approximately 58.4% of the total revenue, and the operating expenses of Prinx Thailand were mainly settled in THB. Therefore, the Group is exposed to foreign exchange risk arising from USD and THB. The occurrence of significant fluctuations in exchange rates will affect the results of the Group. Exchange rate fluctuations and market trends have always been a concern of the Group. In this regard, the Company will strengthen the supervision on foreign currency transactions as well as the scale of foreign currency assets and liabilities, and may manage the potential fluctuations in exchange rates by optimizing the settlement currency of export trades and utilizing exchange rate financial instruments and other proactive preventive measures. The Company uses interest rate swaps to manage its interest rate risk.

(III) Impacts caused by tariff and anti-dumping and countervailing duty imposed by international market on products imported from the PRC and Thailand

In recent years, countries and regions such as the United States, Europe, South Africa and Mexico have restricted the export of tires from other countries to them through the imposition of tariffs and anti-dumping and countervailing duty, and the Group has continued to reduce export tax rate by actively participating in the response to the complaints and investigation. Since 2019, the United States started to impose anti-dumping and countervailing duty on tires imported from China. Prinx Shandong actively participated in administrative review, which significantly reduced the duty rate of the Group's exports to the United States, and improved the competitiveness of the Group's products in the United States market. In addition, the U.S. Department of Commerce issued an anti-dumping levy order on Thailand's passenger vehicle and light truck tires on 19 July 2021. As Prinx Chengshan Tire (Thailand) Co., Ltd. (hereinafter referred to as "**Prinx Thailand**"), an indirect wholly-owned subsidiary of the Company, has not yet exported the concerned tires to the United States during the investigation period, an average anti-dumping duty rate of 17.06% is applicable. In July 2023, the preliminary-determination results of the U.S. Department of Commerce's first review of the anti-dumping duty rate against Thailand's passenger vehicle and light truck tires were determined, pursuant to which the average duty rate of the U.S. for several tires companies in Thailand, including Prinx Thailand, was reduced from the original 17.06% to 4.52%. The preliminary-determination duty rate of Prinx Thailand's has been significantly reduced, and the final-determination result is expected to be announced in early 2024. The decrease in duty rate will enhance the competitiveness of Thai tire products in the United States market, and it is expected that the demand for Thai tires in the United States market will grow rapidly.

(IV) Risks in relation to overseas investments

During the Reporting Period, the Tire Production Base in Thailand was affected by local economic, political, government policies and changes in laws, which may change the investment environment in Thailand and the construction period of the project investment and pose risks to the Company's operation and investment.

The Group will strengthen its internal management, actively analyse the changes in international economic, political and social environment, and timely adjust the development strategy of the Tire Production Base in Thailand to adapt to the development of the situation in each period. At present, the Tire Production Base in Thailand operates steadily and carries out various work in an orderly manner.

(V) 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).

In view of this, the Group has incorporated climate risk management into the Group's risk management system. The Group continuously evaluates the physical risks and transition risks brought about by climate changes and formulates relevant risk prevention plans, such as formulating emergency plans for natural disasters and emergencies, properly stockpiling raw materials for production, implementing safety inventory plans, and formulating corresponding workflow and safety measures for sudden abnormal weather changes. During the Reporting Period, the Tire Production Base in Shandong organised a total of 77 special drills for flood control, anti-typhoon, as well as fire and explosion protection in workshops.

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 regarding legal restrictions under the laws of the relevant jurisdictions and the requirements of the relevant regulatory authorities in the jurisdictions in which it conducts business and investment activities, such as the import tariffs and quota regulations, anti-dumping and sanctions regulations in the United States and the European Union trade regulations. Based on the full cooperation between the legal department of the Company and external legal advisors, and through the continuous and effective supervision of the Company, the Company is able to comply with the relevant laws and regulations within and outside the PRC that have a significant impact on the Company.

Capital structure

There was no change in capital structure of the Company for the six months ended 30 June 2023. The capital of the Company comprises ordinary shares and other reserves.

Capital commitment and contingent liabilities

As at 30 June 2023, the Group's capital commitment was approximately RMB57.4 million (31 December 2022: approximately RMB18.7 million). For the six months ended 30 June 2023, the Group had no contingent liability that would result in a significant impact (31 December 2022: nil).

Significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures

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

Management Discussion and Analysis

Future plans for substantial investments or capital assets

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

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

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

Human resources management

As at 30 June 2023, the Group had a total of 6,405 employees (as at 31 December 2022: 6,144). The employee benefit expenses of the Group were approximately RMB316.6 million for the six months ended 30 June 2023 (for the six months ended 30 June 2022: approximately RMB289.5 million).

The Group continues to implement and improve performance management for all employees, introduces the rank evaluation system, deepens the promotion of a value-oriented salary system, pays employees remuneration and bonuses based on the rank certification and the output of performance results, and timely understands and refers to the market standards of the same industry to adjust the salary level. Through dynamic position value assessment, positions are divided into different professional sequences, job rank system is established, and differentiated remuneration and skill subsidies are implemented for incentives. The Group has launched the E-HR system to basically achieved online operation of standardized business and initially achieved the data analysis of certain functions, which has significantly improved the standardisation, continuity and efficiency of business. During the Reporting Period, the Group strengthened performance management, accelerated the pace of digital management of human resources, and transformed its human resources management towards the direction of stimulating the vitality of talents, improving organizational performance, and improving employee engagement. Through the implementation of many projects, the Group achieved the measurement of talent effectiveness and stimulated the vitality of talents through job value, performance output and capability.

To promote corporate culture and attract, develop and cultivate employees for the Company, the Group has established a Prinix institute. During the Reporting Period, the Group carried out activities such as book reading and summarising, film analysis and regular learning meetings to strengthen the Company's cultural concept of "customer first, being responsible, devotion and professionalism, innovation and opening up". The Group has launched the A/B talent echelon training model to promote the implementation the talent training route of "one post with multiple skills and one person capable of multiple posts". The Group successively cooperated with a number of universities such as Qingdao University of Science and Technology, Shandong University of Science and Technology, Wuhan University of Technology and Weihai Technician College to train talents and jointly built 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 a good reputation. During the Reporting Period, the Group designed the training business into six special training programmes based on the training targets, ranks and positions, including induction training for new employees from fresh college students to continuous empowerment of existing employees. By setting up special training programmes, designing and developing training programmes based on job qualifications, the Group has built a training brand that is suitable for business and truly empowers business. The development of the Group's training courseware is based on positional competence, relied on the team of internal instructors, and derived from the internalisation of positional skills. The Group fully mobilizes key business personnel to extract their experience, leverages the advantages of the E-learning digital learning platform such as flexibility, customization, and fragmentation and adopts multi-form and flexible teaching methods to provide knowledge guarantee for business departments in terms of corporate culture, management thinking, management tools, experience empowerment, etc., and finally continuously accumulate and precipitate into the Group's own knowledge assets to facilitate sustainable development.

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

The Company adopted its new share option scheme (the "**2021 Share Option Scheme**") on 17 May 2021 (the "**2021 Adoption Date**"), and terminated the 2019 Share Option Scheme. The Company conditionally granted 35,050,000 and 3,080,000 Options to certain Grantees on June 28, 2021 (the "**2021 Grant Date**") and 28 September 2022 (the "**2022 Grant Date**"). All options granted and accepted and remained unexpired prior to such termination shall continue to be valid and exercisable in accordance with their terms and the terms of the 2019 Share Option Scheme. For more details, please refer to the circular issued by the Company on 16 April 2021, the announcements issued on 17 May 2021, 18 June 2021 and 28 September 2022, respectively.

For the six months ended 30 June 2023, details of movements in the options are set out in the sections headed "Share Option Scheme" in this report.

The Company had adopted the profit sharing scheme (the "**Profit Sharing Scheme**") on 5 July 2019. Details of the profit sharing scheme adopted by the Company are set out in the section headed "Profit Sharing Scheme" in this report.

Management Discussion and Analysis

Share Option Scheme

Share Option Scheme aims to attract, retain and provide incentives to senior and mid-level management and key employees of the Company, to provide them with the opportunity to obtain shares of the Company and to link their interests closely to the operating results and share performance of the Company with a view to increase the value of the Company and to attract human resources that are valuable to the Group.

2021 Share Option Scheme

The Company adopted the 2021 Share Option Scheme on the 2021 Adoption Date. The 2021 Share Option Scheme is effective within a period of eight years commencing from the 2021 Adoption Date. As at the date of this report, the remaining life of the 2021 Share Option Scheme is approximately five years and eight months.

The purpose of the 2021 Share Option Scheme is to replace the 2019 Share Option Scheme and to enable the Board to grant Options to selected Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to the Group and to recruit and retain high caliber eligible participants and attract human resources that are valuable to the Group. Proposed employees are included as Eligible Participants to enable the Company to offer a competitive remuneration package to recruit high caliber candidates.

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

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

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

During the Reporting Period, no share options under the 2021 Share Option Scheme were exercised or cancelled and a total of 3,710,000 share options were lapsed. 26,370,000 Options were outstanding as at the end of the Reporting Period.

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

Options Granted in 2021

On the 2021 Grant Date, the Company conditionally granted 35,050,000 Options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 35,050,000 ordinary shares (the “**Shares**”) of USD0.00005 each in the share capital of the Company. The exercise price of the Shares on the 2021 Grant Date was HK\$8.568 per Share, which is the highest among (i) the closing price of HK\$8.510 per Share as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on the Grant Date; (ii) the average closing price of HK\$8.568 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the Grant Date; and (iii) the nominal value of each Share. The closing price for the business day immediately preceding the 2021 Grant Date was HK\$8.500 per Share.

Among the Options granted, 5,500,000 Options were granted to the Directors, chief executives or substantial Shareholders of the Company or an associate (as defined in the Listing Rules) of any of them and 29,550,000 Options were granted to other senior management (as defined in Chapter 17 of the Listing Rules) and employees of the Group.

Options Granted in 2022

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

The Grantees of the Options granted in 2022 are the employees of the Group, and none of them are Directors, chief executives or substantial Shareholder of the Company, or their associates (as defined in the Listing Rules) of any of them.

Details of the 2021 Share Option Scheme and the granted Options are set out in the circular issued by the Company on 15 April 2021, the announcements issued on 28 June 2021 and 28 September 2022, respectively.

Management Discussion and Analysis

2019 Share Option Scheme

The Company had adopted the Share Option Scheme on the 2019 Adoption Date, and terminated the 2019 Share Option Scheme on 2021 Adoption Date. Details of the termination of the 2019 Share Option Scheme are set out in the circular issued by the Company on 15 April 2021.

According to the terms of the 2019 Share Option Scheme, the Company may by resolution in general meeting at any time terminate the 2019 Share Option Scheme, and in such event, no further offer to grant an option nor further option shall be made, but in all other respects the provisions of the 2019 Share Option Scheme shall remain in force and effect. All options granted and accepted and remained unexpired immediately prior to such termination shall continue to be valid and exercisable in accordance with their terms and the terms of the 2019 Share Option Scheme.

The 2019 Share Option Scheme aims to attract, retain and provide incentives to senior and mid-level management and key employees of the Company, to provide them with the opportunity to obtain shares of the Company and to link their interests closely to the operating results and share performance of the Company with a view to increasing the value of the Company and to attracting human resources that are valuable to the Group.

For the purpose of the 2019 Share Option Scheme, eligible participants means any employee or proposed employee (whether full time or part time) of any member of the Group or any invested entity, excluding any independent non-executive Directors and provided that the proposed employee is actually employed by the Group and is subject to pass the stipulated probation period.

During the Reporting Period, no share options under the 2019 Share Option Scheme were exercised or cancelled and a total of 682,257 share options were lapsed. 8,361,204 Options were outstanding as at the end of the Reporting Period.

As at the date of this report, no options can be granted under the 2019 Share Option Scheme as the Company has terminated the 2019 Share Option Scheme on 2021 Adoption Date.

Options Granted in 2019

On the 2019 Grant Date, the Company conditionally granted 14,400,000 Options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 14,400,000 shares pursuant to the 2019 Share Option Scheme. The exercise price of the Shares on the 2019 Grant Date was HK\$7.244 per Share, which is the highest among (i) the closing price of HK\$7.130 per Share on the 2019 Grant Date; (ii) the average closing price of HK\$7.244 per Share for the five business days immediately preceding the 2019 Grant Date; and (iii) the nominal value of each Share. The closing price for the business day immediately preceding the 2019 Grant Date was HK\$7.220 per Share. The offer of a grant of Options may be accepted within 28 days from the date of offer.

Among the Options granted in 2019, 1,317,500 Options were granted to the Directors, chief executives or substantial Shareholders of the Company, or an associate (as defined in the Listing Rules) of any of them and 13,082,500 Options were granted to other senior management (as defined in Chapter 17 of the Listing Rules) and employees of the Group.

Options Granted in 2020

On the 2020 Grant Date, the Company conditionally granted 835,500 Options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 835,500 shares pursuant to the 2019 Share Option Scheme. The exercise price of the Shares on the 2020 Grant Date was HK\$7.960 per Share, which is the highest among (i) the closing price of HK\$7.960 per Share on the 2020 Grant Date; (ii) the average closing price of HK\$7.894 per Share for the five business days immediately preceding the 2020 Grant Date; and (iii) the nominal value of each Share. The closing price for the business day immediately preceding the 2020 Grant Date was HK\$7.820 per Share.

The Grantees of the Options granted in 2020 are the employees of the Group, and none of them are Directors, chief executives or substantial Shareholders of the Company, or their associates (as defined in the Listing Rules).

Details of the 2019 Share Option Scheme and the granted Options are set out in the circular issued by the Company on 13 June 2019, the announcements issued on 15 July 2019, 9 July 2019 and 9 July 2020, and the circular issued on 15 April 2021.

Management Discussion and Analysis

Details of the share options outstanding and share options granted, exercised, cancelled and lapsed during the six months ended 30 June 2023 are as follows:

Name of participants	Position(s) held	Grant Date	Exercise price	At the Grant Date	Outstanding at the beginning of the period	Number of options					Outstanding at the end of the period	Exercisable period
						Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at the end of the period		
Che Baozhen	Executive Director	9 July 2019	HKD7.244	580,000	580,000	—	—	—	—	580,000	From 9 July 2020 to 8 July 2025 (Note 1 & 5)	
Shi Futao	Executive Director	9 July 2019	HKD7.244	512,000	512,000	—	—	—	—	512,000	From 9 July 2020 to 8 July 2025 (Note 1 & 5)	
		28 June 2021	HKD8.568	5,000,000	5,000,000	—	—	—	—	5,000,000	From 28 June 2024 to 27 June 2029 (Note 3 & 5)	
Cao Xueyu	Executive Director and Company Secretary	9 July 2019	HKD7.244	225,500	225,500	—	—	—	—	225,500	From 9 July 2020 to 8 July 2025 (Note 1 & 5)	
		28 June 2021	HKD8.568	500,000	500,000	—	—	—	—	500,000	From 28 June 2024 to 27 June 2029 (Note 3 & 5)	
Other Senior Management (as defined in Chapter 17 of the Listing Rules) and employees		9 July 2019	HKD7.244	13,082,500	7,193,164	—	—	585,184	—	6,607,980	From 9 July 2020 to 8 July 2025 (Note 1 & 5)	
		9 July 2020	HKD7.960	835,500	532,797	—	—	97,073	—	435,724	From 9 July 2021 to 8 July 2025 (Note 2 & 5)	
		28 June 2021	HKD8.568	29,550,000	21,500,000	—	—	1,950,000	—	19,550,000	From 28 June 2024 to 27 June 2029 (Note 3 & 5)	
		28 September 2022	HKD8.568	3,080,000	3,080,000	—	—	1,760,000	—	1,320,000	From 28 June 2024 to 27 May 2029 (Note 4 & 5)	
Total			53,365,500	39,123,461	0	0	4,392,257	0	34,731,204			

Note 1 The Options granted will vest upon achievement of the performance targets in the respective proportions and on the respective dates as specified in the offer letter. One-third of the total number of the Options granted will be vested and exercisable after 12 months, 24 months and 36 months from the 2019 Grant Date, respectively; if the Options are not vested as the performance of the scheme participants in the first three vesting periods fails to meet the standards, in the event that the performance meets the standard upon the fourth annual assessment and the deferred vesting conditions are satisfied, the Options granted may be exercised at any time after the fourth exercise period (i.e., after 48 months from the 2019 Grant Date), and the vesting proportion is the remaining unvested Options after excluding the expired Options. If the vesting conditions are not met by the Grantee, the unvested Options granted to such Grantee would lapse. Subject to the vesting schedule, the Options are exercisable within a period of six years commencing from the 2019 Grant Date.

Note 2 The Options granted will vest upon achievement of the performance targets in the respective proportions and on the respective dates as specified in the offer letter. Half of the total number of the Options granted will be vested and exercised after 12 months and 24 months from the 2020 Grant Date, respectively; if the Options are not vested as the performance of the scheme participants in the first two vesting periods fails to meet the standards, in the event that the performance meets the standard upon the third annual assessment and the deferred vesting conditions are satisfied, the Options granted may be exercised at any time after the third exercise period (i.e., after 36 months from the 2020 Grant Date), and the vesting proportion is the remaining unvested Options after excluding the expired Options. If the vesting conditions are not met by the Grantee, the unvested Options granted to such Grantee would lapse. Subject to the vesting schedule, the Options are exercisable within a period of five years commencing from the 2020 Grant Date.

Note 3 Subject to the terms of the 2021 Share Option Scheme, 35% and the remaining 65% of the Options can be vested and exercised at any time after 36 months and 60 months from the 2021 Grant Date; subject to the vesting schedule, the Options are exercisable within a period of eight years commencing from the 2021 Grant Date. The Options granted will vest upon achievement of the performance targets in the respective proportions and on the respective dates as specified in the offer letter; if the vesting conditions are not met by the Grantee, the unvested Options granted to such Grantee would lapse in accordance with the terms of the 2021 Share Option Scheme.

Note 4 Subject to the terms of the 2021 Share Option Scheme, 35% and the remaining 65% of the Options can be vested and exercised at any time after 21 months and 45 months from the 2022 Grant Date; subject to the vesting schedule, the Options are exercisable within a period of six years and nine months commencing from the 2022 Grant Date. The Options granted will vest upon achievement of the performance targets in the respective proportions and on the respective dates as specified in the offer letter; if the vesting conditions are not met by the Grantee, the unvested Options granted to such Grantee would lapse in accordance with the terms of the 2021 Share Option Scheme.

Note 5 The exercise of the Options is subject to the fulfillment of Company's annual performance objectives and personal performance objectives.

Save as disclosed above, (i) none of the Grantees is a Director, chief executives or substantial shareholder of the Company, or an associate (as defined in the Listing Rules) of any of them; (ii) none of the Grantees is a Participant who has granted or will grant options in excess of the individual limit of 1% as required under the Listing Rules in any 12-month period; and (iii) none of the Grantees is a Connected Entity Participant or Service Provider (as defined in the Listing Rules).

Options Exercised and Issued Shares

As mentioned above, no share options granted by the Company were exercised during the six months ended 30 June 2023.

PROFIT SHARING SCHEME

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

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

EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Group that have occurred since the end of the Reporting Period.

Controlling Shareholder's Specific Performance Obligations under the Financing Agreement

On 17 March 2020, Prinx Thailand (as the borrower) and Bank of China (Hong Kong) Limited, Bank of China (Thai) Public Company Limited and The Hong Kong and Shanghai Banking Corporation Limited, Bangkok Branch (the "**Lenders**", as mandated lead arrangers and original lenders) entered into a facility agreement (the "**Agreement**") relating to US\$90 million facility with a term of four years after the date of the Agreement.

Under the Agreement, Prinx Thailand shall procure that:

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

Upon breach of the specific performance obligations, the Lenders will, among other things, have the power to cancel the commitments under the Agreement and declare immediate repayment of all outstanding loan together with accrued interest, all other amounts accrued under the Agreement, and other finance documents due and payable.

The details of the loan agreement with specific performance covenants are set out in the announcement issued by the Company on 17 March 2020.

The relevant parties entered into an amendment and restatement agreement to amend and restate the Agreement (the “**Amended Agreement**”) on 3 July 2021, pursuant to which the aggregate amount of the facility will increase from US\$90 million to US\$170 million. The term of the facility under the Agreement as amended by the Amended Agreement remains unchanged (i.e. four years after the date of the Agreement). The relevant parties entered into a second amendment and restatement agreement to amend and restate the Amended Agreement on 30 June 2023, pursuant to which the interest rate has been adjusted.

Save as disclosed above, there are no other material changes to the terms and conditions of the Agreement and the Amended Agreement. As at the date of this report, the Controlling Shareholders directly and indirectly beneficially own 69.43% of the total issued share capital of the Company.

The details of the Amended Agreement are set out in the announcement issued by the Company on 7 July 2021.

Corporate Governance and Other Information

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high standard of corporate governance through an effective board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency to all the Shareholders, to safeguard the interests of its Shareholders and enhance its value and accountability. The Company has adopted the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Listing Rules as its own corporate governance code. The Company has been in compliance with the applicable code provisions under Part 2 of the Corporate Governance Code for the six months ended 30 June 2023. 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 set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Specific enquiries have been made to all 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 six months ended 30 June 2023.

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 six months ended 30 June 2023.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) which comprises three members, all being independent non-executive Directors, namely Mr. Choi Tze Kit Sammy (Chairman), Mr. Wang Chuansheng and Mr. Zhang Xuehuo during the Reporting Period. The primary responsibility of the Audit Committee is to review and supervise the Company’s financial reporting procedures and internal controls.

The Audit Committee has reviewed the unaudited condensed consolidated interim results and interim report of the Group for the six months ended 30 June 2023, and hereby recognised that the interim results have been prepared in accordance with the relevant accounting standards and that the Company has made appropriate disclosures therein.

Appointment of Chief Financial Officer

Mr. Huang Xiaolei was appointed as the Chief Financial Officer of the Company with effect from 1 June 2023. Mr. Shi Futao, an executive director and vice president of the Company, ceased to act as the Chief Financial Officer with effect from 1 June 2023. Details of the appointment were set out in the Company’s announcement dated 22 May 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2023, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

2023 ANNUAL GENERAL MEETING

The Board views the annual general meeting as an important opportunity for direct communication with shareholders. The 2023 annual general meeting was held on 22 May 2023 at No. 98, North Nanshan Road, Rongcheng City, Shandong Province and successfully concluded. Board members and external auditors attended the meeting where they communicated with shareholders. Details of the voting matters are set out in the Company's announcement dated 22 May 2023.

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

As at 30 June 2023, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules, are set out as follows:

Name of directors	Capacity/Nature of interest	Number of shares	Long/Short position	Approximate percentage of shareholding in the Company
Mr. Che Hongzhi	Spouse interest	441,859,500 (Note 1)	Long position	69.43%
Mr. Che Baozhen	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%
	Beneficial owner	580,000 (Note 3)	Long position	0.09%
Mr. Shi Futao	Beneficial owner	5,664,000 (Note 4)	Long position	0.89%
Ms. Cao Xueyu	Beneficial owner	773,000 (Note 5)	Long position	0.12%

Corporate Governance and Other Information

Notes:

- (1) Mr. Che Hongzhi is the spouse of Ms. Li Xiuxiang. As such, he is deemed to be interested in all the Shares in which Ms. Li Xiuxiang is interested.
- (2) As at 30 June 2023, Mr. Che Baozhen directly owned 50% of the equity interest in Shanghai Chengzhan Information and Technology Center* (上海成展信息科技有限公司) (“**Shanghai Chengzhan**”), which in turns owned 95% of the equity interest in Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司) (“**Beijing Zhongmingxin**”), which in turns controlled 39.79% of the equity interest in Chengshan Group Company Limited*(成山集團有限公司) (“**Chengshan Group**”). As such, Mr. Che Baozhen, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests in Chengshan Group.
- (3) As at 30 June 2023, Mr. Che Baozhen held interests in those Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.
- (4) As at 30 June 2023, Mr. Shi Futao held interests in 5,512,000 Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.
- (5) As at 30 June 2023, Ms. Cao Xueyu held interests in 725,500 Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.
- (6) The calculation is based on the total number of 636,440,000 Shares in issue as at 30 June 2023.

* For identification purpose only

Save as disclosed above, as at 30 June 2023, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2023, to the knowledge of the Directors, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares	Long/Short position	Approximate percentage of shareholding in the Company
Sinotruk (Hong Kong) Capital Holding Limited	Beneficial owner	61,400,000 (Note 1)	Long position	9.65%
Sinotruk (Hong Kong) International Investment Limited	Interest in a controlled corporation	61,400,000 (Note 1)	Long position	9.65%
Sinotruk (Hong Kong) Limited	Interest in a controlled corporation	61,400,000 (Note 1)	Long position	9.65%
Sinotruk (BVI) Limited	Interest in a controlled corporation	61,400,000 (Note 1)	Long position	9.65%
China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司)	Interest in a controlled corporation	61,400,000 (Note 1)	Long position	9.65%
Chengshan Group	Beneficial owner	441,859,500 (Note 2)	Long position	69.43%
Beijing Zhongmingxin	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Shanghai Chengzhan	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Ms. Li Xiuxiang	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Ms. Bi Wenjing	Spouse interest	442,439,500 (Note 3)	Long position	69.52%

Corporate Governance and Other Information

Notes:

- (1) As at 30 June 2023, China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司) owned 100% of the interests of Sinotruk (BVI) Limited, which in turns owned 51% of the issued share capital of Sinotruk (Hong Kong) Limited. Sinotruk (Hong Kong) Limited owned 100% of the issued share capital of Sinotruk (Hong Kong) International Investment Limited, which in turns owned 100% of the issued share capital of Sinotruk (Hong Kong) Capital Holding Limited, which in turns owned 61,400,000 Shares. As such, China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司), Sinotruk (BVI) Limited, Sinotruk (Hong Kong) Limited and Sinotruk (Hong Kong) International Investment Limited are deemed to be interested in 61,400,000 Shares held by Sinotruk (Hong Kong) Capital Holding Limited.
- (2) As at 30 June 2023, Ms. Li Xiuxiang directly owned 50% of the equity interest in Shanghai Chengzhan, which owned 95% of the equity interest in Beijing Zhongmingxin, which in turns owned 39.79% of the equity interest in Chengshan Group. As such, Ms. Li Xiuxiang, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests in Chengshan Group.
- (3) Ms. Bi Wenjing is the spouse of Mr. Che Baozhen. As such, she is deemed to be interested in all the Shares in which Mr. Che Baozhen is interested.
- (4) The calculation is based on the total number of 636,440,000 Shares in issue as at 30 June 2023.

Save as disclosed above, as at 30 June 2023, to the knowledge of the Directors, none of any other person (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register referred to in section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this interim report, during the six months ended 30 June 2023, the Company or any of its subsidiaries did not enter into any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

CHANGE OF DIRECTOR INFORMATION

Mr. Zhang Xuehuo was appointed as an independent non-executive director of the Company for a term expiring on 9 September 2023. Mr. Zhang ceased to be an independent non-executive Director and the chairman of the Nomination and Remuneration Committee and a member of each of the Audit Committee and the Development Committee and the Risk Management Committee upon the expiry of his term of office. Mr. Jin Qingjun has been appointed as an independent non-executive director of the Company by the Board for a term of three years with effect from the expiry of the term of office of Mr. Zhang.

Please refer to the announcement of the Company dated 31 August 2023 for the details of the above changes of Directors and the biographical details of Mr. Jin Qingjun.

Save as disclosed above, the Directors confirm that no information is required to be disclosed in accordance with Rule 13.51B(1) of the Listing Rules.

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2023

	Note	Unaudited Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Revenue	7	4,336,159	4,091,195
Cost of sales		(3,513,078)	(3,554,315)
Gross profit		823,081	536,880
Selling and distribution expenses		(245,937)	(222,375)
Administrative expenses		(80,971)	(96,257)
Research and development costs		(126,720)	(112,263)
Other income		24,903	20,810
Other gains — net		17,238	30,753
Net reversal of impairment losses on financial assets		941	189
Operating profit	8	412,535	157,737
Finance income	9	9,593	3,020
Finance costs	9	(44,242)	(27,761)
Finance costs — net	9	(34,649)	(24,741)
Share of result of associates		178	38
Profit before income tax		378,064	133,034
Income tax expense	10	(50,928)	25,563
Profit for the period		327,136	158,597
Profit attributable to:			
— Shareholders of the Company		327,134	158,577
— Non-controlling interests		2	20
		327,136	158,597
Earnings per share for profit attributable to shareholders of the Company for the period			
— Basic (RMB)	11	0.51	0.25
— Diluted (RMB)	11	0.51	0.25

The accompanying notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Profit for the period	327,136	158,597
Other comprehensive income:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	69,018	74,701
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Currency translation differences	41,842	56,171
Other comprehensive income for the period, net of tax	110,860	130,872
Total comprehensive income for the period	437,996	289,469
Attributable to:		
— Shareholders of the Company	437,994	289,449
— Non-controlling interests	2	20
Total comprehensive income for the period	437,996	289,469

The accompany notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Note	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	5,408,506	5,270,833
Right-of-use assets	14	99,874	107,766
Intangible assets	13	84,971	85,741
Investment in associates		5,930	5,933
Prepayments	18	7,047	8,855
Deferred tax assets	25	3,677	19,508
		5,610,005	5,498,636
Current assets			
Inventories	15	1,276,340	1,277,371
Trade and notes receivables	17	1,550,031	1,312,473
Prepayments, other receivables and other current assets	18	318,793	337,141
Financial assets at fair value through profit or loss	16	115,684	261,065
Amounts due from related parties	27(b)	168,330	126,374
Cash and cash equivalents		836,884	982,037
Restricted cash		152,338	190,646
		4,418,400	4,487,107
Total assets		10,028,405	9,985,743
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	19	201	201
Share premium	19	2,185,598	2,185,598
Reserves	21	2,591,540	2,266,231
		4,777,339	4,452,030
Non-controlling interests		(159)	(161)
Total equity		4,777,180	4,451,869

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Note	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings	22	455,051	1,440,375
Lease liabilities	14	3,788	5,988
Deferred income		88,992	76,047
Deferred tax liabilities	25	46,658	14,932
		594,489	1,537,342
Current liabilities			
Trade payables	23	1,999,877	2,000,310
Other payables and accruals	24	1,171,093	1,071,303
Contract liabilities		60,627	48,720
Lease liabilities	14	8,537	12,400
Provision for warranties		75,182	75,919
Dividend payable		1	—
Amounts due to related parties	27(b)	1,468	2,093
Current income tax liabilities		23,181	22,885
Bank borrowings	22	1,316,770	762,902
		4,656,736	3,996,532
Total liabilities		5,251,225	5,533,874
Total equity and liabilities		10,028,405	9,985,743

The accompanying notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Note	Unaudited Equity attributable to shareholders of the Company			Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (Note 19)	Share premium RMB'000 (Note 19)	Reserves RMB'000 (Note 21)			
Balance at 1 January 2023		<u>201</u>	<u>2,185,598</u>	<u>2,266,231</u>	<u>4,452,030</u>	<u>(161)</u>	<u>4,451,869</u>
Comprehensive income							
Profit for the period		<u>—</u>	<u>—</u>	<u>327,134</u>	<u>327,134</u>	<u>2</u>	<u>327,136</u>
Other comprehensive income							
Currency translation difference		<u>—</u>	<u>—</u>	<u>110,860</u>	<u>110,860</u>	<u>—</u>	<u>110,860</u>
Total other comprehensive income, net of tax		<u>—</u>	<u>—</u>	<u>110,860</u>	<u>110,860</u>	<u>—</u>	<u>110,860</u>
Total comprehensive income		<u>—</u>	<u>—</u>	<u>437,994</u>	<u>437,994</u>	<u>2</u>	<u>437,996</u>
Transactions with shareholders							
Employee share option schemes							
— value of employee services	20,21	<u>—</u>	<u>—</u>	<u>1,505</u>	<u>1,505</u>	<u>—</u>	<u>1,505</u>
Cash Dividends	12	<u>—</u>	<u>—</u>	<u>(114,190)</u>	<u>(114,190)</u>	<u>—</u>	<u>(114,190)</u>
Total transactions with shareholders		<u>—</u>	<u>—</u>	<u>(112,685)</u>	<u>(112,685)</u>	<u>—</u>	<u>(112,685)</u>
Balance at 30 June 2023		<u>201</u>	<u>2,185,598</u>	<u>2,591,540</u>	<u>4,777,339</u>	<u>(159)</u>	<u>4,777,180</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Note	Unaudited Equity attributable to shareholders of the Company			Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (Note 19)	Share premium RMB'000 (Note 19)	Reserves RMB'000 (Note 21)			
Balance at 1 January 2022		201	2,185,598	1,734,533	3,920,332	(200)	3,920,132
Comprehensive income							
Profit for the period		—	—	158,577	158,577	20	158,597
Other comprehensive income							
Currency translation difference		—	—	130,872	130,872	—	130,872
Total other comprehensive income, net of tax		—	—	130,872	130,872	—	130,872
Total comprehensive income		—	—	289,449	289,449	20	289,469
Transactions with shareholders							
Employee share option schemes							
— value of employee services	20,21	—	—	4,437	4,437	—	4,437
Cash Dividends	12	—	—	(108,818)	(108,818)	—	(108,818)
Total transactions with shareholders		—	—	(104,381)	(104,381)	—	(104,381)
Balance at 30 June 2022		201	2,185,598	1,919,601	4,105,400	(180)	4,105,220

The accompanying notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Cash flows from operating activities		
Cash used in from operations	484,749	(106,167)
Interest received	10,733	2,335
Interest paid	(47,645)	(30,090)
Income tax (paid)/refund	(5,846)	2,818
	<u>441,991</u>	<u>(131,104)</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(188,560)	(248,793)
Proceeds from government grants	17,707	19,334
Proceeds from disposal of property, plant and equipment	4,904	28
Purchase of intangible assets	(2,844)	(3,927)
Purchase of financial assets at fair value through profit or loss	(1,447,449)	(1,019,142)
Proceeds from disposal of financial assets at fair value through profit or loss	1,586,957	957,970
Dividend received	181	—
	<u>(29,104)</u>	<u>(294,530)</u>
Cash flows from financing activities		
Proceeds from borrowings	32,300	701,058
Repayment of borrowings	(496,514)	(228,592)
Principal elements of lease payments	(6,294)	(6,249)
Cash dividends paid	(111,509)	—
	<u>(582,017)</u>	<u>466,217</u>
Net (decrease)/increase in cash and cash equivalents	(169,130)	40,583
Cash and cash equivalents at the beginning of period	982,037	728,813
Exchange gain on cash and cash equivalents	23,977	28,940
	<u>836,884</u>	<u>798,336</u>
Cash and cash equivalents at the end of period	836,884	798,336

The accompany notes form an integral part of these condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

1 General information, reorganisation and basis presentation

1.1 General information

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

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

The immediate holding company and ultimate controlling company of the Group is Chengshan Group Co., Ltd. (“Chengshan Group”), which was established in the PRC. The company is ultimately held as to 69.15% by Mr. Che Baozhen and his spouse, Ms. Bi Wenjing, Mr. Che Hongzhi and his spouse, Ms. Li Xiuxiang (collectively the “Controlling Shareholders”) and other individual shareholders.

These condensed consolidated interim financial information are presented in thousands of Renminbi (“RMB’000”) and were approved for issue by the board of directors on 31 August 2023.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) except for the adoption of new and amended standards as disclosed in note 3.

3 Significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards except Amendments to HKAS 12.

- HKFRS 17 Insurance Contracts
- Disclosure of Accounting Policies — Amendments to HKAS 1 and HKFRS Practice Statement 2
- Definition of Accounting Estimates — Amendments to HKAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to HKAS 12

The amendments to HKAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations, and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- i. right-of-use assets and lease liabilities, and
- ii. decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

3 Significant accounting policies (Continued)

(a) New and amended standards adopted by the Group (Continued)

The cumulative effect of recognising these adjustments as of 31 December 2022 was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

- (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2023 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to HKFRS 16	Lease liability in sale and leaseback	1 January 2024
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

4 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

There have been no material changes in the risk management department or in any risk management policies since the year end.

5.2 Liquidity risk

Compared to the previous year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

5 Financial risk management (Continued)

5.2 Liquidity risk (Continued)

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

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total Amount <i>RMB'000</i>
At 30 June 2023					
Bank borrowings	1,316,770	182,630	272,421	—	1,771,821
Interest payables for bank borrowings	55,064	12,929	17,318	—	85,311
Amounts due to related parties	1,468	—	—	—	1,468
Trade payables	1,999,877	—	—	—	1,999,877
Other payables	989,987	—	—	—	989,987
Lease liabilities	8,760	3,186	676	—	12,622
	4,371,926	198,745	290,415	—	4,861,086
At 31 December 2022					
Bank borrowings	762,902	1,104,944	297,502	37,929	2,203,277
Interest payables for bank borrowings	74,703	29,844	29,185	520	134,252
Amount due to related parties	2,093	—	—	—	2,093
Trade payables	2,000,310	—	—	—	2,000,310
Other payables	874,943	—	—	—	874,943
Lease liabilities	12,776	4,258	1,879	—	18,913
	3,727,727	1,139,046	328,566	38,449	5,233,788

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

5 Financial risk management (Continued)

5.3 Fair value estimation (Continued)

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

The following table presents the Group's assets and liabilities that are measured at fair value as at the balance sheet dates:

	Level 1	Level 2	Level 3	Total
As at 30 June 2023				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products (a)	—	—	82,682	82,682
— Listed equity securities	12,560	—	—	12,560
— Interest rate swap	—	20,442	—	20,442
Financial assets at fair value through other comprehensive income				
— Notes receivable (a)	—	—	173,888	173,888
	12,560	20,442	256,570	289,572
As at 31 December 2022				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products (a)	—	—	209,482	209,482
— Listed equity securities	21,044	—	—	21,044
— Interest rate swap	—	30,539	—	30,539
Financial assets at fair value through other comprehensive income				
— Notes receivable (a)	—	—	117,534	117,534
	21,044	30,539	327,016	378,599

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

5 Financial risk management (Continued)

5.3 Fair value estimation (Continued)

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

	Fair value at 30 June 2023 RMB'000		Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	82,682	Discounted cash flow	Expected yield rate	1.8%–2.7% (2.3%)	A change in the yield rate by 100 basis points would increase/decrease the fair value by approximately RMB808,625
Notes receivable	173,888	Discounted cash flow	Expected discount interest rate	1.2%–1.9% (1.6%)	A change in the yield rate by 100 basis points would increase/decrease the fair value by approximately RMB1,712,342

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

6 Segment information

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

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

The Group has two segments as follows:

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

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

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

	Unaudited Six months ended 30 June	
	2023 Revenue RMB’000	2022 Revenue RMB’000
Mainland China	1,744,446	1,204,122
Americas	1,033,796	1,832,063
Africa	445,296	333,234
Asia (excluding Mainland China)	375,046	317,592
Middle East	442,238	316,791
Other countries	295,337	87,393
	4,336,159	4,091,195

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

6 Segment information (Continued)

	For the six months ended 30 June 2023		
	Domestic RMB'000	Overseas RMB'000	Total RMB'000
Segment revenue	3,121,749	1,214,410	4,336,159
Segment results	561,603	261,478	823,081
Selling and distribution expenses			(245,937)
Administrative expenses			(80,971)
Research and development costs			(126,720)
Net reversal of impairment losses on financial assets			941
Other income			24,903
Other gains — net			17,238
Finance costs — net			(34,649)
Share of result of associates			178
Profit before income tax			378,064
	For the six months ended 30 June 2022		
	Domestic RMB'000	Overseas RMB'000	Total RMB'000
Segment revenue	2,467,685	1,623,510	4,091,195
Segment results	257,453	279,427	536,880
Selling and distribution expenses			(222,375)
Administrative expenses			(96,257)
Research and development costs			(112,263)
Net reversal of impairment losses on financial assets			189
Other income			20,810
Other gains — net			30,753
Finance costs — net			(24,741)
Share of result of associates			38
Profit before income tax			133,034

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

6 Segment information (Continued)

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Domestic	2,200,108	2,245,703
Overseas	3,308,272	3,132,896
	5,508,380	5,378,599

7 Revenue

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Revenue from customers and recognised at point in time		
Sales of tire products:		
— All steel radial tires	2,774,811	2,615,379
— Semi-steel radial tires	1,493,807	1,431,360
— Bias tires	67,541	44,456
	4,336,159	4,091,195

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

8 Operating profit

The operating profit of the Group is stated after charging the following:

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Depreciation of property, plant and equipment (<i>Note 13</i>)	(220,988)	(152,972)
Depreciation of right-of-use assets (<i>Note 14</i>)	(7,892)	(8,022)
Provisions for warranty claims	(20,050)	(22,599)
Amortisation of intangible assets (<i>Note 13</i>)	(3,666)	(2,694)
Provision for impairment of trade receivables (<i>Note 17</i>)	941	189
Provision for write-down of inventories (<i>Note 15</i>)	(6,983)	(13,040)
Other income		
— Sales of scraps	12,975	12,316
— Government grants	11,928	8,494
Other gains — net		
— Gains on disposal of financial assets at fair value through profit or loss	5,359	1,460
— Losses from fair value change of financial assets at fair value through profit or loss	(11,232)	(178)
— Losses on disposal of property, plant and equipment	(676)	(267)
— Net other foreign exchange gains	24,387	28,948

9 Finance costs — net

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Finance costs:		
— Interest expense on bank borrowings	(47,064)	(34,744)
— Lease liabilities (<i>Note 14</i>)	(231)	(379)
— Net foreign exchange losses on borrowings	(50)	(6,110)
	(47,345)	(41,233)
Less: amounts capitalised on qualifying assets	3,103	13,472
	(44,242)	(27,761)
Finance income:		
— Interest income derived from bank deposits	9,593	3,020
	9,593	3,020
Finance costs — net	(34,649)	(24,741)

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

10 Income tax expense

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

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Current income tax		
— PRC corporate income tax	242	(28)
— Hong Kong and overseas profits tax	3,129	3,310
Deferred income tax (Note 25)	47,557	(28,845)
Income tax expense	50,928	(25,563)

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Profit before income tax	378,064	133,034
Tax calculated at applicable tax rates	88,103	21,330
Expenses not deductible for tax purpose	911	3,160
Tax exemption of a subsidiary	(28,304)	(48,031)
Tax benefit from High and New-Technology Enterprise qualification	(24,535)	9,992
Additional deduction of research and development cost and other expense	(12,348)	(12,014)
Others (a)	27,101	—
Tax charge	50,928	(25,563)

(a) Others represent the relevant tax expense for the internal equity interest transfer of a subsidiary of the Group.

Income tax expense is recognised based on the management's estimate of the annual income tax rate expected for the full financial year.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

11 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 period.

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Profit attributable to the shareholders of the Company	327,134	158,577
Weighted average number of ordinary shares in issue (thousands)	636,440	636,440
Basic earnings per share (RMB)	0.51	0.25

(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.

The diluted earnings per share is the same as basic earnings per share since share options would have an anti-dilutive effect for the six months ended 30 June 2023 and 2022.

12 Dividends

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Cash dividend paid by the Company (a)	114,190	—
Final dividends declared by the Company	—	108,818

(a) Dividend during the six months ended 30 June 2023 represented cash dividend declared and paid by the Company to its equity holders.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

13 Capital expenditure

	Unaudited						Intangible assets	
	Property, plant and equipment							Total
	Land and buildings	Machinery and factory equipment	Furniture and fixtures	Vehicles	Tools	Construction in progress		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Six months ended 30 June 2023								
Opening net book amount as at 1 January 2023	1,309,764	2,715,731	16,256	6,173	215,002	1,007,907	5,270,833	85,741
Additions	—	44,218	135	1,778	489	200,966	247,586	2,844
Transferred from Construction in progress	227,848	818,948	3,751	7,514	15,489	(1,073,550)	—	—
Disposals	—	(5,441)	—	—	(139)	—	(5,580)	—
Depreciation and amortisation	(26,290)	(154,086)	(3,265)	(1,760)	(35,587)	—	(220,988)	(3,666)
Exchange difference	40,570	70,434	169	49	4,398	1,035	116,655	52
Closing net book amount as at 30 June 2023	1,551,892	3,489,804	17,046	13,754	199,652	136,358	5,408,506	84,971
Six months ended 30 June 2022								
Opening net book amount as at 1 January 2022	959,298	1,861,542	33,309	7,944	195,041	1,599,887	4,657,021	73,360
Additions	—	84,064	1,118	455	391	557,250	643,278	3,927
Transferred from Construction in progress	255,734	734,617	3,596	4,326	63,971	(1,062,244)	—	—
Disposals	—	(244)	(51)	—	—	—	(295)	—
Depreciation and amortisation	(13,005)	(111,598)	(2,663)	(2,024)	(23,682)	—	(152,972)	(2,694)
Exchange difference	29,572	26,481	119	60	10,131	43,842	110,205	141
Closing net book amount as at 30 June 2022	1,231,599	2,594,862	35,428	10,761	245,852	1,138,735	5,257,237	74,734

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

14 Leases

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Right-of-use assets		
— Land use rights	88,241	90,170
— Buildings	11,633	17,596
	99,874	107,766
Lease liabilities		
Current		
— lease liabilities	8,537	12,400
Non-Current		
— lease liabilities	3,788	5,988
	12,325	18,388

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

The current portion of lease liabilities amounting to RMB3,898,000 (31 December 2022: RMB7,673,000) respectively represent amounts due to related parties.

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

	Unaudited Six months ended 30 June 2023 RMB'000	2022 RMB'000
Depreciation of right-of-use assets (Note 8)		
— Land use rights	1,930	1,930
— Buildings	5,962	6,092
	7,892	8,022
Interest expense (Note 9)	231	379
Expense relating to short term leases	9,603	9,885

The total cash payment for leases during the period was RMB15,898,000.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

15 Inventories

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Raw materials	285,690	283,893
Work-in-progress	93,798	80,027
Finished goods	896,852	913,451
	1,276,340	1,277,371

Write-downs of inventories amounting to RMB6,983,000 were made for the six months ended 30 June 2023.

16 Financial assets at fair value through profit or loss

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Financial assets at fair value through profit or loss		
— Wealth management products (a)	82,682	209,482
— Listed equity securities (b)	12,560	21,044
— Interest rate swap (c)	20,442	30,539
	115,684	261,065

	Unaudited 30 June 2023 RMB'000
At the beginning of the period	261,065
Additions	1,447,449
Disposals	(1,586,957)
Gains on disposal of financial assets at fair value through profit or loss	5,359
Fair value losses on financial assets at fair value through profit or loss	(11,232)
At the end of the period	115,684

- (a) The wealth management products are fair valued using a discounted cash flow approach. The main input used by the Group is estimated yield rate written in contract with the counterparty. The fair value is within level 3 of the fair value hierarchy (Note 5.3).
- (b) The listed equity securities are fair valued based on the quoted market price.
- (c) The interest rate swap contract is derivative financial instrument and is fair valued based on the interest rate under the observation period.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

17 Trade and notes receivables

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Trade receivables	1,396,146	1,215,786
Less: provision for impairment of trade receivables	(20,003)	(20,847)
Trade receivables — net	1,376,143	1,194,939
Notes receivable	173,888	117,534
Trade and notes receivables — net	1,550,031	1,312,473

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

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade and notes receivables based on invoice date were as follows:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Up to 3 months	1,402,832	1,061,239
4 to 6 months	120,475	195,140
7 to 12 months	33,412	60,776
1 to 2 years	6,951	9,065
2 to 3 years	476	3,132
Over 3 years	5,888	3,968
	1,570,034	1,333,320

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

	Unaudited 30 June 2023 RMB'000
At the beginning of the period	20,847
Reversal of provision for impairment of trade receivables (Note 8)	(941)
Foreign exchange loss	97
At the end of the period	20,003

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

18 Prepayments, other receivables and other current assets

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Non-current		
Prepayments for purchase of property, plant and equipment	<u>7,047</u>	<u>8,855</u>
Current		
Prepayments for inventory	64,852	90,672
Other receivables		
— Deposits in Customs Office	1,571	356
— Others	27,730	41,669
Other current assets		
— value added tax to be deducted	212,007	198,743
— prepaid sales tax	12,633	5,701
	<u>318,793</u>	<u>337,141</u>
	<u>325,840</u>	<u>345,996</u>

19 Share capital and share premium

	Number of authorised shares
Authorised share capital: As at 1 January 2022, 31 December 2022 and 30 June 2023	<u>1,000,000,000</u>

	Number of issued shares	Nominal value of Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid:				
As at 31 December 2022	<u>636,440,000</u>	<u>201</u>	<u>2,185,598</u>	<u>2,185,799</u>
As at 30 June 2023	<u>636,440,000</u>	<u>201</u>	<u>2,185,598</u>	<u>2,185,799</u>

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

20 Share options

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 5 July 2019 (the “2019 Adoption Date”), the share option scheme (the “2019 Share Option Scheme”) was adopted by the Company. The number of shares issuable pursuant to the 2019 Share Option Scheme was 16,000,000 shares, being approximately 2.5% of the total number of shares in issue on the 2019 Adoption Date.

On 9 July 2019 (the “2019 Grant Date”), the board of directors resolved to grant 14,400,000 shares of options to certain eligible employees under the 2019 Share Option Scheme, the exercise price is HKD7.24 per share. The exercise of share options shall be conditional upon fulfilment of the Company’s annual performance objectives and personal performance objectives. Assuming all the conditions for exercise of the share options are fulfilled in accordance with the 2019 Share Option Scheme, the proportion of 1/3, 1/3 and 1/3 of the share options may be exercised after the 12 months, 24 months, 36 months from the date of grant. Subject to the vesting schedule, options granted in 2019 under the 2019 Share Option Scheme are exercisable within a period of six years commencing from the grant date. Total fair value of options as at the 2019 Grant Date was determined to be HKD25,709,438, assuming the Company’s annual performance objectives and personal performance objectives can be fulfilled.

On 9 July 2020 (the “2020 Grant Date”), the board of directors resolved to grant 835,500 shares of options to certain eligible employees under the 2019 Share Option Scheme, the exercise price is HKD7.96 per share. The exercise of share options shall be conditional upon fulfilment of the Company’s annual performance objectives and personal performance objectives. Assuming all the conditions for exercise of the share options are fulfilled in accordance with the 2019 Share Option Scheme, the proportion of 1/2 and 1/2 of the share options may be exercised after the 12 months and 24 months from the date of grant. If the Options are not vested as the performance of the scheme participants in the first two vesting periods fails to meet the standards, in the event that the performance meets the standard upon the third annual assessment, the deferred vesting conditions are considered satisfied and the options granted may be exercised at any time after the third exercise period (i.e., after 36 months from the 2020 Grant Date), and the vesting proportion is the remaining unvested options after excluding the lapsed Options. Subject to the vesting schedule, options granted in 2020 under the 2019 Share Option Scheme are exercisable within a period of five years commencing from the grant date. Total fair value of options as at the 2020 Grant Date granted during year ended 31 December 2020 were determined to be HKD1,707,728, assuming the Company’s annual performance objectives and personal performance objectives can be fulfilled.

Pursuant to an ordinary resolution passed at annual general meeting of the Company held on 17 May 2021 (the “2021 Adoption Date”), the current share option scheme (the “2021 Share Option Scheme”) was adopted by the Company and replaced the 2019 Share option schemes. The number of shares issuable pursuant to the 2021 Share Option Scheme was 50,000,000 shares, being approximately 7.9% of the total number of shares in issue on the 2021 Adoption Date.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

20 Share options (Continued)

On 28 June 2021 (the “2021 Grant Date”), the board of directors resolved to grant 35,050,000 shares of options to certain eligible employees under the 2021 Share Option Scheme, the exercise price is HKD8.57 per share. The exercise of share options shall be conditional upon fulfilment of the Company’s annual performance objectives and personal performance objectives. Assuming all the conditions for exercise of the share options are fulfilled in accordance with the 2021 Share Option Scheme, the proportion of 35% and 65% of the share options may be exercised after the 36 months and 60 months from the date of grant. Subject to the vesting schedule, the 2021 Share Option Scheme are exercisable within a period of eight years commencing from the grant date.

On 28 September 2022 (the “2022 Grant Date”), the board of directors resolved to grant 3,080,000 shares of options to certain eligible employees under the 2021 Share Option Scheme, the exercise price is HKD8.57 per share. The exercise of share options shall be conditional upon fulfilment of the Company’s annual performance objectives and personal performance objectives. Assuming all the conditions for exercise of the share options are fulfilled in accordance with the 2021 Share Option Scheme, the proportion of 35% and 65% of the share options may be exercised after the 36 months and 60 months from the date of grant. Subject to the vesting schedule, the 2021 Share Option Scheme are exercisable within a period of approximately seven years commencing from the grant date.

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

	Unaudited			
	30 June 2023		30 June 2022	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 January	HKD8.27	39,123,461	HKD8.24	46,150,500
Granted during the period	—	—	—	—
Exercised during the period	—	—	—	—
Lapsed during the period	HKD8.38	(4,392,257)	HKD7.82	(1,204,608)
As at 30 June	HKD8.26	34,731,204	HKD8.25	44,945,892

During the six months end 30 June 2023, an employee benefit expense of amounting to RMB1,505,000 (During the six months ended 30 June 2022: RMB4,437,000) with a corresponding increase in equity is recognized in profit or loss.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

21 Reserves

	Capital reserve RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Share option reserves RMB'000	Total RMB'000
Balance at 1 January 2023	(70,715)	346,301	(10,299)	1,965,951	34,993	2,266,231
Profit for the period	—	—	—	327,134	—	327,134
Cash dividends (<i>Note 12</i>)	—	—	—	(114,190)	—	(114,190)
Employee share option schemes						
— value of employee services	—	—	—	—	1,505	1,505
Currency translation differences	—	—	110,860	—	—	110,860
Balance at 30 June 2023	(70,715)	346,301	100,561	2,178,895	36,498	2,591,540
Balance at 1 January 2022	(70,715)	294,703	(246,351)	1,732,584	24,312	1,734,533
Profit for the period	—	—	—	158,577	—	158,577
Cash dividends (<i>Note 12</i>)	—	—	—	(108,818)	—	(108,818)
Employee share option schemes						
— value of employee services	—	—	—	—	4,437	4,437
Currency translation differences	—	—	130,872	—	—	130,872
Balance at 30 June 2022	(70,715)	294,703	(115,479)	1,782,343	28,749	1,919,601

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

22 Bank borrowings

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Current		
Current portion of non-current bank borrowings		
— Secured	962,270	297,012
— Unsecured	225,200	68,890
	1,187,470	365,902
Short-term bank borrowings		
— Unsecured	129,300	397,000
	1,316,770	762,902
Non-current		
Bank borrowings		
— Secured	206,400	1,019,074
— Unsecured	248,651	421,301
	455,051	1,440,375
Total borrowings	1,771,821	2,203,277

As at 30 June 2023, the secured bank borrowings of RMB1,168,670,000 (31 December 2022: RMB1,316,086,000) and undrawn borrowing facilities of RMB340,873,000 (31 December 2022: RMB328,551,000) were secured by property, plant and equipment amounting to RMB3,932,499,000 (31 December 2022: RMB3,756,971,000).

As at 30 June 2023, the weighted average effective interest rates on borrowings from banks were 4.23% (31 December 2022: 4.03%).

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

22 Bank borrowings (Continued)

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
RMB	783,151	1,079,191
USD	988,670	1,124,086
	1,771,821	2,203,277

23 Trade payables

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Accounts payable	1,143,846	1,101,127
Notes payable (a)	856,031	899,183
	1,999,877	2,000,310

(a) As at 30 June 2023, RMB821,980,000 (31 December 2022: RMB854,511,000) notes payable represented bank acceptance notes secured by certain restricted bank balances and RMB34,051,000 (31 December 2022: RMB44,672,000) secured by certain notes receivable.

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade payables based on invoice date were as follows:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Within 3 months	1,332,197	1,356,920
4 to 6 months	587,004	598,194
7 to 12 months	59,279	24,952
Above 1 year	21,397	20,244
	1,999,877	2,000,310

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

24 Other payables and accruals

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Payables for purchase of property, plant and equipment	544,827	490,712
Payroll and employee benefit payables	173,837	185,827
Accrued expense	151,544	135,285
Accrued sales rebates and commission	86,774	73,804
Freights and custom duty payable	80,979	59,458
Deposit from customers	41,605	41,991
Interest payables	19,335	19,916
Other tax payables	7,269	10,533
Other payables	64,923	53,777
	1,171,093	1,071,303

25 Deferred income tax

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	52,075	85,250
— Deferred tax assets to be recovered after more than 12 months	2,367	2,346
Total deferred tax assets	54,442	87,596
Set-off of deferred tax liabilities pursuant to set-off provisions	(50,765)	(68,088)
Deferred tax assets, net	3,677	19,508
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	(14,484)	(10,501)
— Deferred tax liabilities to be settled after more than 12 months	(82,939)	(72,519)
Total deferred tax liabilities	(97,423)	(83,020)
Set-off of deferred tax assets pursuant to set-off provisions	50,765	68,088
Deferred tax liabilities, net	(46,658)	(14,932)

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

25 Deferred income tax (Continued)

	Unaudited 30 June 2023 RMB'000
At the beginning of period	4,576
Charge to the consolidated statement of profit or loss (Note 10)	(47,557)
At the end of period	(42,981)

26 Capital commitments

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Purchase of property, plant and equipment — Contracted but not provided for	57,390	18,653

27 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

Save as disclosed elsewhere in the interim condensed consolidated financial information, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business for the six months ended 30 June 2023 and 2022, and balances arising from related party transactions as at 30 June 2023 and 31 December 2022.

27 Related party transactions (Continued)

Name and relationship with related parties are set out below:

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

The English names of certain companies referred to in these condensed consolidated interim financial information represent management’s best effort at translating the Chinese names of these companies as no English names have been registered.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

27 Related party transactions (Continued)

(a) Transactions with related parties

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Continuing transactions		
(i) Purchase of utilities — Chengshan Group	93,512	77,865
(ii) Sale of goods — Sinotruk	124,799	74,169
— Yunnan Prinx Chengshan Tire Co., Ltd.	12,281	7,218
— Hebei Prinx Chengshan Tire Co., Ltd.	50,305	46,356
	187,385	127,743
(iii) Rental and estate management expenses paid and payable — Rongcheng Chengshan Properties Co., Ltd.	2,982	2,982
— Chengshan Group	3,775	3,843
	6,757	6,825
(iv) Service received — Rongcheng Chengshan Energy-Saving Services Co., Ltd.	3,777	2,160

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

27 Related party transactions (Continued)

(b) Balances with related parties

(i) Amounts due from related parties

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Current		
Trade balances		
— Sinotruk	135,952	103,046
— Hebei Prinx Chengshan Tire Co., Ltd.	32,378	23,328
	168,330	126,374

The ageing analysis of trade receivables from related parties based on invoice date at respective dates of statement of financial position were as follows:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
1–3 months	146,079	92,467
4–6 months	13,011	31,184
7–12 months	9,240	2,723
	168,330	126,374

(ii) Amounts due to related parties

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Current		
Contract liabilities		
— Yunnan Prinx Chengshan Tire Co., Ltd.	146	604
Trade payables		
— Chengshan Group	698	690
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	624	799
	1,322	1,489
	1,468	2,093

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

27 Related party transactions (Continued)

(b) Balances with related parties (Continued)

(ii) Amounts due to related parties (Continued)

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 <i>RMB'000</i>
Less than 3 months	1,322	1,489

(iii) Lease liabilities

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 <i>RMB'000</i>
Current — Chengshan Group	3,898	7,673

28 Events occurring after the reporting period

There are no events to cause material impact on the Group from the balance sheet date to the date of this report that should be disclosed.

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

Shandong, the PRC, 31 August 2023

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.