



浦林成山
PRINX CHENGSHAN

Prinx Chengshan (Cayman) Holding Limited

浦林成山（開曼）控股有限公司

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

Stock Code: 1809



Global Offering

Sole Sponsor



BOC INTERNATIONAL

Sole Global Coordinator



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Joint Bookrunners and Joint Lead Managers



國泰君安國際
GUOTAI JUNAN INTERNATIONAL



海通國際
HAITONG



安信國際
ESSENCE INTERNATIONAL

IMPORTANT

IMPORTANT: If you are in any doubt about the contents of this prospectus, you should seek independent professional advice.



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

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 135,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 13,500,000 Shares (subject to adjustment)
Number of International Offer Shares	: 121,500,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$7.50 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund)
Nominal value	: US\$0.00005 per Share
Stock code	: 1809

Sole Sponsor



Sole Global Coordinator



Joint Bookrunners



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between us and the Sole Global Coordinator (on behalf of the Underwriters) on or about Tuesday, October 2, 2018 and, in any event, not later than Wednesday, October 3, 2018. The Offer Price will be not more than HK\$7.50 per Offer Share and is currently expected to be not less than HK\$5.89 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$7.50 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$7.50 per Offer Share. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters) on or before Wednesday, October 3, 2018 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement – Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

September 24, 2018

EXPECTED TIMETABLE⁽¹⁾

Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Friday, September 28, 2018
Application lists open ⁽³⁾	11:45 a.m. on Friday, September 28, 2018
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Friday, September 28, 2018
Latest time for completing payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, September 28, 2018
Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, September 28, 2018
Application lists close ⁽³⁾	12:00 noon on Friday, September 28, 2018
Expected Price Determination Date ⁽⁵⁾	Tuesday, October 2, 2018

- (1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before
- (2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares – 11. Publication of Results" in this prospectus
- (3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.prinxchengshan.com from

Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function from

EXPECTED TIMETABLE⁽¹⁾

Dispatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁶⁾ Monday, October 8, 2018

Dispatch/collection of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before Monday, October 8, 2018

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence on 9:00 am on Tuesday, October 9, 2018

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for lodging applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day of lodging applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, September 28, 2018, the application lists will not open on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Tuesday, October 2, 2018 and, in any event, not later than Wednesday, October 3, 2018 unless otherwise determined between the Sole Global Coordinator (on behalf of the Underwriters) and our Company (on behalf of ourselves). If, for any reason, the Offer Price is not agreed by Wednesday, October 3, 2018 between us and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not become unconditional and will lapse.
- (6) Share certificates for the Hong Kong Offer Shares are expected to be issued on Monday, October 8, 2018 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects, and neither of the Underwriting Agreements has been terminated in accordance with its terms, prior to 8:00 a.m. on the Listing Date, which is expected to be on or around Tuesday, October 9, 2018. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. You should refer to the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Prinx Chengshan (Cayman) Holding Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Information contained in our website, located at www.prinxchengshan.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read this section carefully before you invest in Offer Shares.

OVERVIEW

We are a leading domestic tire manufacturer in the PRC Commercial All Steel Radial Tires replacement market and a major domestic tire manufacturer in the PRC. Our revenue grew by a CAGR of approximately 17.2% from 2015 to 2017, and was higher than those for the global and PRC vehicle tire markets for the same period, which was 3.0% and 9.5%, respectively according to Frost & Sullivan. In particular, from 2015 to 2017, revenue we derived from sales of All Steel Radial Tires grew by a CAGR of 18.1%, which was materially higher than the industry average of 2.5%, according to Frost & Sullivan. Moreover, while we have expanded our production capacity over the Track Record Period, our production facilities have continued to operate at close to full capacity to meet the increase in demand from our customers. Our major market rankings in 2017 according to Frost & Sullivan are as below:

- We were the 5th largest domestic All Steel Radial Tires manufacturer in the PRC, and the 3rd within the replacement tire segment of such market in terms of sales revenue and volume.
- We are a major domestic All Steel Radial Tires exporter with leading export volumes to various markets. We ranked amongst the top five domestic All Steel Radial Tire exporters to each of the United States, Thailand, and Malaysia markets, respectively.

We have four major well-known tire brands, namely, “Prinx”, “Chengshan”, “Austone” and “Fortune”. Our “Prinx” brand is dedicated to medium to premium tires we produced. Our brands have consistently been recognized for their quality and high price-performance ratio. As a result, we were named as “Top Ten Influential PRC Tire Brand” in an evaluation event organized by the World Brand Lab in 2016 and 2017, “Top 500 Most Valuable Brands in the PRC” in 2004, and received awards and accreditation granted by several vehicle manufacturers in the PRC during the Track Record Period. For further details, please see subsection “– Awards and Accreditation”. Brand recognition is essential in the tire industry because vehicle manufacturers and consumers prioritize safety and quality when selecting tires.

We operate under a “customer first and quality driven” principle and our quality control system have been awarded with international certification of IATF 16949 standard in August 2017. Through our stringent quality control process, we attained a warranty claim rate of 0.86% in 2017. According to Frost & Sullivan, the PRC industry average taking into account a wide spectrum of tire manufacturers is 1.32% for the same year. In addition, to ensure efficient utilization of resources and to minimize our operational cost, we regularly adopt new

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or revised the lean six sigma executive doctrines that are designed to reach operational and/or financial targets, such as reducing pollution or cost. We believe such effort help us build a PRC-leading efficient operation that is ranked first nationally in terms of energy consumption per unit of revenue amongst the Semi-Steel Radial Tires manufacturers and All Steel Radial Tires manufacturers, respectively, according to Frost & Sullivan. As a result, we were accredited with energy conservation awards granted by the Shandong Province and certifications for the successful adoption of information technology in operation from MIIT in 2017.

We have a well-established and comprehensive global sales network that covers major tire markets. As of March 31, 2018, our products were sold all over the world through more than 400 distributors. In addition, we established direct sales channels with some of the vehicle manufacturers, including Sinotruk Group, Jiangling Auto, Dongfeng Liuqi, China FAW, SAIC Hongyan, and Qingling Auto, and our products are utilized on new vehicles produced by 24 vehicle manufacturers. Our products have received certifications from relevant authorities from all of the major tire markets in the world, including DOT for the United States, and ECE and R117 for the EU. Moreover, we believe our comprehensive global sales network allows us to diversify the risk of over reliance on a particular market and/or a specific group of customers and benefit from increase in global tire demand. We have built a strong revenue stream from sales to distributors in the replacement tire market as such market is less cyclical, while at the same time established relationships with vehicle manufacturers to tap into markets with better margins. Over the years, we have also successfully implemented new sales models that are supported by our aftersales team to better meet the demands of our customers. We believe such sales model has allowed us to provide more value-added service to our customers and enhanced our understanding of the relevant end-user market, which in turn, have helped increase customer loyalty and helped us expand into targeted markets.

For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, our revenue was RMB3,521.9 million, RMB3,821.7 million, RMB4,840.4 million and RMB1,355.7 million, respectively. We derived a substantial portion of our revenue from sales of All Steel Radial Tires and Semi-Steel Radial Tires, which constituted approximately 93.8%, 94.4%, 95.7% and 97.6% of our total revenue for each of the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively.

OUR PRODUCTS

We design, manufacture and distribute All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires that are sold mainly under our medium to premium brand, “Prinx” and well-known brands, “Chengshan”, Austone” and “Fortune”. We have established a product portfolio of over 2,400 products that are used by a wide range of vehicles operating on diverse terrains, including trucks, buses, passenger cars, agricultural and industrial vehicles. Our products have received relevant product certifications in the major tire markets in the world, including DOT for the United States and ECE for the EU, and are supplied to approximately 130 countries. Please see “Business – Our Products” for further details.

SUMMARY

In March 2016, Cooper recalled less than 600 units of our products due to potential minor air leakage and as a result, we incurred settlement cost of approximately USD70,000 which was paid in full in 2016. It was a one-off event and we implemented additional inspection procedures in response. For further details, please refer to the section headed “Business – Sales and Customers – Warranty”.

SALES AND DISTRIBUTION NETWORK

We currently sell our products through three main channels: (i) sales to replacement market through our PRC and overseas distributors, (ii) direct sales to vehicle manufacturers, and (iii) to Private Label customers. Through our three sales channels, our products reach approximately 130 countries, including sales to established leading vehicle manufacturers in the PRC, established logistics teams, transportation teams specialized in hazardous materials and the tire replacement market.

The table below sets forth our revenue by sales channels for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)									
Distributors										
<i>Domestic</i>	1,027,394	29.2	1,393,106	36.5	1,774,498	36.7	561,195	44.0	485,987	35.9
<i>International</i>	789,603	22.4	799,854	20.9	1,341,025	27.7	287,601	22.5	324,507	23.9
	1,816,997	51.6	2,192,960	57.4	3,115,523	64.4	848,796	66.5	810,494	59.8
Direct sales to										
Vehicle										
Manufacturers	757,101	21.5	677,581	17.7	975,037	20.1	211,398	16.6	337,230	24.9
Private Label										
Customers	947,781	26.9	951,187	24.9	749,836	15.5	214,900	16.9	207,955	15.3
	<u>3,521,879</u>	<u>100.0</u>	<u>3,821,728</u>	<u>100.0</u>	<u>4,840,396</u>	<u>100.0</u>	<u>1,275,094</u>	<u>100.0</u>	<u>1,355,679</u>	<u>100.0</u>

Please see “Business – Sales and Customers – Sales by channel” and “Financial Information – Description of Key Consolidated Statement of Profit or Loss Line Items – Revenue” for further details.

Benefited from our long history, market position and brand recognition, our products have achieved high penetration rate in the PRC in the All Steel Radial Tires replacement market, which we primarily conduct through distributors. With a view to capitalizing on the rapidly growing passenger vehicle market, we commenced to develop our Semi-Steel Radial Tires distribution network and have been investing in growing our direct sales to vehicle manufacturers. We successfully developed 24 vehicle manufacturers as our customers as of March 31, 2018. For the years 2017 and 2018, we were engaged as the sole tire supplier to

SUMMARY

established logistics teams, such as Jianhua Logistics, and commenced to provide tires for transportation teams specialized in carrying hazardous materials. Moreover, to capitalize on the growth offered by the expanding e-commerce channels, we have also commenced to develop a B2C sales channel through Wellong Etown (惠龍易通). Currently, our sales through such channel constitute a de minimis portion of our total sales. Please see “Business – Sales and Customers” for further details.

We derived 21.0%, 20.5%, 14.8% and 13.3% of our total sales for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, from our largest customer, Cooper. We supply to Cooper pursuant to two offtake agreements which are both set to expire on June 30, 2019. We are in the process of negotiating renewals with Cooper. If we cannot successfully secure the renewals on acceptable terms, or at all, our revenue and profitability could be materially adversely affected. For more details, please refer to “Risk Factors – Risk Related to Our Business and Industry – Our revenue and profitability could be materially adversely affected if we fail to maintain existing relationship with Cooper” and “Business – Sales and Customers – Private Label Customers – Relationship with Cooper”.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we made sales to certain countries subject to International Sanctions, including sales of our tires to certain distributors and delivered to Iran, Sudan, Syria, Afghanistan, Balkans, Belarus, Croatia, Egypt, Eritrea, Lebanon, Libya, Mali, Myanmar, Russia, Somalia, Ukraine, Venezuela and Yemen. Iran and Syria are subject to very comprehensive economic sanctions and Sudan was subject to OFAC’s comprehensive sanctions program under the Sudanese Sanctions Regulations up to October 12, 2017. To the best knowledge of our Directors, our revenue derived from sales to the distributors who onward sold our products to the aforementioned countries that are subject to International Sanctions amounted to approximately RMB187.1 million, RMB197.0 million, RMB274.0 million and RMB72.7 million, respectively, representing approximately 5.3%, 5.2%, 5.7% and 5.4% of our total revenue for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. To the best knowledge of our Directors, during April and May 2018, our revenue derived from sales to the distributors who onward sold our products to the aforementioned countries that are subject to International Sanctions amounted to RMB52.8 million. Please refer to section headed “Business – Business Activities in Countries Subject to International Sanctions” for further details.

As advised by our International Sanctions Legal Advisor, five payments in an aggregate amount of approximately US\$1,502,473 received from third-party intermediaries with respect to our goods sold to our distributors and delivered directly to Iran and Syria were denominated in U.S. dollars and processed through the U.S. financial system before they were received by our Group. These transactions appear to be potential violations of U.S. sanctions regulations that are applicable to transactions with Iran and Syria, respectively. After consulting with our International Sanctions Legal Advisors, we submitted a voluntary self-disclosure (“VSD”) on March 28, 2018 to OFAC with regard to the USD-denominated payments relating to Iran and Syria, in which we provided OFAC with full details and relevant documents regarding those sales transactions. OFAC is currently reviewing our VSD, and our International Sanctions

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Legal Advisors are working actively to make sure that OFAC has all the required information to resolve this issue. Based on the facts and circumstances and the assessment made by our International Sanctions Legal Advisors, our Directors believe that the most likely result of the VSD will be a cautionary letter issued by OFAC to close out the case without the imposition of any penalty. If, however, in the unlikely event that OFAC were to impose an administrative penalty on us as a result of potential sanctions violations, our Directors believe, based on consultation with our International Sanctions Legal Advisors, that such penalties are unlikely to have a material adverse effect on our financial condition or results of operations. Please refer to sections headed “Risk Factors – We have previously made sales to distributors in countries subject to International Sanctions administered by U.S., and we could be adversely affected if these sales result in penalties on our Group” and “Business – Business Activities in Countries Subject to International Sanctions” for further details.

RAW MATERIALS AND SUPPLIERS

We purchase raw materials from various suppliers on a global and local basis for use in our manufacturing processes. The principal raw materials primarily consist of natural rubber, synthetic rubber, steel wire cords, carbon black and auxiliary chemicals. During the Track Record Period, we were able to procure such raw materials from multiple sources in quantities sufficient for our needs.

Our top five suppliers are suppliers of natural rubber, synthetic rubber and steel wire cords. For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, purchase amount from our five largest suppliers accounted for approximately 23.6%, 27.0%, 28.5% and 24.8% of our total purchase amount, respectively. For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, purchase amount from our largest supplier accounted for approximately 5.5%, 8.9%, 9.1% and 6.2% of our total purchase amount, respectively. Our five largest suppliers for the three months ended March 31, 2018 have maintained business relationships with us for an estimated range of one to 20 years. Please see “Business – Raw Materials” for further details.

We did not enter into any hedging contracts with regard to procurement of raw materials during the Track Record Period and do not currently have any hedging policies with regard to our raw materials procurement.

OUR STRENGTHS

We believe that our success and our ability to capitalize on future growth opportunities are attributable to our following strengths:

- We are a well-established domestic tire manufacturer with a proven track record of high growth. We are also a leading domestic tire manufacturer in the PRC’s Commercial All Steel Radial Tire replacement market well positioned to benefit from the PRC tire market growth.
- Comprehensive and stringent quality control and production management system.
- Well-established and comprehensive global sales network that covers all major tire markets supported by an experienced sales team.

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- Advanced research and development capability and extensive manufacturing know-how with a commitment to technological innovation.
- Experienced and stable management team with profound industry knowledge and international vision, supported by our strategic shareholder, Sinotruk Capital.

OUR STRATEGIES

As a major PRC tire manufacturer in the All Steel Radial Tire and Semi-Steel Radial Tire markets, we plan to strengthen our existing market position in the PRC and in parallel increase our competitiveness in the overseas and new products markets. Our principal strategies include the following:

- Strengthen our market position in the All Steel Radial Tire market and continue to expand our Semi-Steel Radial Tire business.
- Enhance our global footprint and capture the growing opportunities in the tire industry.
- Enhance our brand portfolio and increase our brand recognition and reputation.
- Further strengthen our research and development capability and enhance our technical know-how.
- Adopt environmentally friendly measures and continue to upgrade our production process.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table sets forth selected consolidated income statement items for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenue	3,521,879	3,821,728	4,840,396	1,275,094	1,355,679
Cost of sales	(2,823,665)	(2,993,929)	(4,071,799)	(1,123,676)	(1,093,696)
Gross profit	698,214	827,799	768,597	151,418	261,983
Selling and distribution expenses	(265,863)	(295,772)	(320,952)	(85,071)	(71,007)
Administrative expenses	(71,880)	(72,762)	(82,085)	(18,421)	(27,840)
Research and development costs	(64,357)	(75,617)	(85,246)	(18,114)	(22,254)
Other income	18,150	19,194	21,458	4,622	5,582
Other gains/(losses) – net	35,609	12,152	(25,440)	(3,330)	(21,996)
Operating profit	349,873	414,994	276,332	31,104	124,468
Financial income	3,168	863	3,931	603	1,138
Financial expenses	(52,325)	(14,643)	(13,518)	(3,280)	(246)
Finance (costs)/income – net	(49,157)	(13,780)	(9,587)	(2,677)	892
Losses from fair value change of convertible redeemable preferred shares	(4,591)	(55,032)	(56,727)	(3,009)	–
Profit before income tax	296,125	346,182	210,018	25,418	125,360
Income tax expense	(132,981)	(54,976)	(36,446)	(6,120)	(17,001)
Profit for the year	<u>163,144</u>	<u>291,206</u>	<u>173,572</u>	<u>19,298</u>	<u>108,359</u>

We had a one-off provision of withholding tax on a dividend distribution in connection with the Reorganization in the amount of RMB89.8 million in 2015. Such withholding tax led to a higher effective tax rate of 44.9% in 2015, as compared to 15.9%, 17.4% and 13.6% for the years ended December 31, 2016, 2017 and the three months ended March 31, 2018, respectively.

Raw materials accounted for a substantial portion of our production costs, representing 68.2%, 74.5%, 78.4% and 68.1% of total cost of sales for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Rubber, carbon black and steel wire cords are the primary raw materials applied to produce All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires, and our production consumes a substantial amount of other auxiliary raw materials every year. The price of rubber has fluctuated during recent years, and continuing volatility in the prices for our raw materials may have adverse effects on our

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business, financial condition and results of operations. In particular, our gross profit margin decreased from 21.7% for the year ended December 31, 2016 to 15.9% for the year ended December 31, 2017, primarily due to a sudden fluctuation of the prices of natural and synthetic rubber, which increased at the end of 2016 and then started to fall in the end of March 2017. Our gross profit margin increased to 19.3% for the three months ended March 31, 2018 primarily due to decrease in prices of rubber. Please see “Financial Information – Key Factors Affecting Our Results of Operations – Fluctuations of Raw Material Cost” for further details.

Our trade receivables consisted of accounts receivables and notes receivables, and was RMB622.5 million, RMB767.7 million, RMB971.3 million and RMB1,104.6 million as of December 31, 2015, 2016, 2017 and March 31, 2018, respectively. We generally grant our customers a credit period of no more than two months. Credit period longer than two months generally needs to be approved by management on a case-by-case basis. Our average trade receivables turnover days was 82 days, 68 days, 66 days and 70 days for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018. Our financial position and results of operations may be negatively impacted if our customers cannot timely settle outstanding payment due to us. As of July 31, 2018, RMB710.9 million or 92.3% and RMB324.2 million or 93.5%, of our account receivables and notes receivables as of March 31, 2018 were settled, respectively. For more details on our trade receivables, please refer to “Risk Factors – Risk Related to Our Business and Industry – We are subject to credit risk in respect of the recoverability of our accounts receivables from our customers” and “Financial Information – Description of Certain Line Items in the Consolidated Statements of Financial Position – Trade receivables”.

KEY FINANCIAL RATIOS

	Year ended December 31,			Three months ended
	2015	2016	2017	March 31, 2018
Gross margin ⁽¹⁾	19.8%	21.7%	15.9%	19.3%
Net profit margin ⁽²⁾	4.6%	7.6%	3.6%	8.0%
Return on equity ⁽³⁾	15.1%	21.2%	11.2%	24.1% ⁽⁵⁾
Return on total assets ⁽⁴⁾	4.6%	8.4%	4.5%	10.9% ⁽⁵⁾

(1) Calculated by dividing gross profit by revenue for the period and multiplied by 100%.

(2) Calculated by dividing net profit for the period by revenue for the period and multiplied by 100%.

(3) Calculated by dividing net profit attributable to owner of the Company for the period by average equity attributable to owner of the Company as at the beginning and the end of the period and multiplied by 100%.

(4) Calculated by dividing net profit for the period by average total assets as at the beginning and the end of the period and multiplied by 100%.

(5) On an annualized basis.

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	As of December 31,			As of
	2015	2016	2017	March 31, 2018
Current ratio ⁽¹⁾	1.0	1.3	1.3	1.4
Quick ratio ⁽²⁾	0.7	0.9	1.0	1.1
Debt to equity ratio ⁽³⁾	0.1	–	0.2	0.2

- (1) Calculated by dividing current assets by current liabilities as at the end of the period.
- (2) Calculated by dividing the current assets less inventories by current liabilities as at the end of the period.
- (3) Calculated by dividing total debt by total equity as at the end of the period. Debt means our interest-bearing borrowings.

RISK FACTORS

Our business is primarily faced with the following risks:

- We are exposed to risks posed by fluctuations in the prices of raw materials, and any substantial or extended increase in prices for these commodities would have a material adverse effect on our business, financial condition and results of operations.
- General economic conditions and other factors causing a material contraction in vehicle sales and production could have a material adverse effect on our business, financial condition and results of operations.
- Our plans for capacity expansion, business development and investment is subject to uncertainty and the assumptions used by us may not be appropriate or accurate.
- Our revenue and profitability could be materially adversely affected if we fail to maintain existing relationships with our customers.
- Any changes to international trade regulations, quotas, tariffs and duties may affect prices of and demand for our products.
- Our failure to develop, maintain and enhance our brand and reputation may materially adversely affect the level of market recognition of, and trust in, our products.

OFFER STATISTICS

The statistics in the following table are based on the assumption that (a) that Global Offering has been completed and 135,000,000 Offer Shares have been issued; and (b) the Over-allotment Option has not been exercised.

SUMMARY

	<u>Based on an Offer Price of HK\$5.89⁽²⁾</u>	<u>Based on an Offer Price of HK\$7.50⁽²⁾</u>
Market capitalization of the Shares	HK\$3,740,150,000	HK\$4,762,500,000
Unaudited pro forma adjusted consolidated net tangible assets per share ⁽¹⁾	HK\$4.67	HK\$5.01

Notes:

- (1) No adjustments have been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading result or other transactions of the Group entered into subsequent to March 31, 2018.
- (2) In connection with the preparation of this unaudited pro forma statement of adjusted net tangible assets, the translation of Renminbi into Hong Kong dollars has been made at a rate of RMB0.8706 to HK\$1.00.

RECENT DEVELOPMENTS

Since March 31, 2018 up to the Latest Practicable Date, in view of our production capacity reaching its maximum, we have accelerated and invested RMB67 million in the first phase of our All Steel Radial Tires capacity expansion. We estimate that we will be able to commence production in the new facilities by early 2019.

Our Directors confirm that there has been no other material event since March 31, 2018, and there has been no material adverse change in our business operations, result of operations, or financial or trading position since March 31, 2018 up to the date of this prospectus.

Potential additional tariff on our products exported to the United States

In July 2018, the United States government announced intention to impose additional 10% tariff on a list of products imported from the PRC, which included all tires we exported to the United States during the Track Record Period. On August 1, 2018, the United States government indicated it is exploring the possibility of increasing the proposed tariff from 10% to 25%. The final list of products subject to this additional tariff was announced on September 17, 2018, which included all tires we exported to the United States during the Track Record Period. According to the announcement, the additional tariff was set at 10% and will become effective as of September 24, 2018. The announcement also expressed the United States government's intention to raise this additional tariff to 25% in 2019. Our financial position and results of operations could be materially adversely affected by this development. However, we believe we can deploy a number of strategies to mitigate the adverse impact, including (i) passing the tariff onto our customers, or passing the tariff in part or in full onto the end users in collaboration with our customers due to the competitiveness of our current prices in the United States as compared to those of comparable products; (ii) directing sales of All Steel Radial Tires to other regions due to the demand for our products in relation to our production capacity; and (iii) constructing or acquiring an overseas production base to mitigate the impact of anti-dumping and anti-subsidy duties and applicable tariff. We are closely monitoring the development of the situation and discussing with our customers in the United States in order

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to design sales strategies in response to the proposed tariff when it comes into effect. For more details, please refer to the sections headed “Risk Factors – Risks Related to Our Business and Industry – Recent tariff imposed by the United States government on products imported from the PRC could materially adversely affect our financial position and results of operations” and “Business – Sales and Customers – Private Label Customers”.

DIVIDEND POLICY

We may distribute dividends in the form of cash, shares or a combination of cash and shares. Our board of directors formulates our profit distribution plan based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions on the payment of dividends and other factors that our board deems relevant. All of our Shareholders have equal rights to dividends and other distributions proportionate to their shareholding.

We declared cash dividends of RMB485.0 million, RMB27.5 million and RMB90.2 million for the years ended December 31, 2015, 2016 and 2017, respectively, all of which were settled as of March 31, 2018. We declared cash dividends of RMB83.1 million for the three months ended March 31, 2018, which was settled as of April 30, 2018. Our historical dividends may not be indicative of the amount of our future dividends. For further details, please refer to section headed “Financial Information – Dividend Policy”.

We currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 20% of our distributable net profit attributable to our equity shareholders in the future. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$6.70 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$837.9 million (RMB729.5 million), after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 4.7% (approximately HK\$39.1 million or RMB34.0 million) will be used for investment in the first phase of our All Steel Radial Tires capacity expansion.

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- approximately 35.8% (approximately HK\$300.2 million or RMB261.3 million) will be used for the second phase of our All Steel Radial Tires capacity expansion.
- approximately 19.8% (approximately HK\$165.9 million or RMB144.5 million) will be used for the expansion of our Semi-Steel Radial Tires production capacity.
- approximately 30.0% (approximately HK\$251.4 million or RMB218.9 million) will be used for our mergers and acquisition opportunities, taking into multiple factors, including the location of such project and whether it allows or helps us to (i) better manage our production costs, (ii) ready access our target market, (iii) participate in the “one belt one road” opportunity, and (iv) mitigate the risks that comes with trade regulations, such as anti-dumping and anti-subsidy duties. Currently, we do not have an identified acquisitions target; and
- approximately 9.7% (approximately HK\$81.3 million or RMB70.8 million) will be used for working capital purposes.

For further details of our use of proceeds, please refer to section headed “Future Plans and Use of Proceeds”.

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are as ascribed under the Listing Rules and unless the context requires otherwise, refer to the controlling shareholders of our Company, being Chengshan Group, the Che Family and the Controlled Entities. Please see “Relationship with Controlling Shareholders – Our Controlling Shareholders” for further details.

PRE-IPO INVESTOR

As part of the Reorganization, our Company, Chengshan Group and Sinotruk Capital entered into the Pre-IPO Share Subscription Agreement on July 21, 2015. On October 29, 2015, upon completion of the Pre-IPO Investment, 436,599,999 new ordinary Shares and 63,400,000 Series A Preferred Shares, representing approximately 87.32% and 12.68% of the total issued share capital of our Company, were allotted and issued to Chengshan Group and Sinotruk Capital. All of the Series A Preferred Shares were converted into 63,400,000 ordinary Shares on January 1, 2018. For further details, please refer to the section headed “History, Reorganization and Corporate Structure – Pre-IPO Investment”.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission and fees incurred in connection with the Listing and the Global Offering. Listing expenses to be borne by us are estimated to be approximately RMB58.0 million (assuming an Offer Price of HK\$6.70, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus and that the Over-allotment Option will not be exercised), of which approximately RMB30.0 million is directly attributable to the issue of Shares to the public and to be capitalized, and

SUMMARY

approximately RMB28.0 million has been or is expected to be reflected in our consolidated income statements. Approximately RMB11.8 million of the listing expenses in relation to services already performed has been reflected in our consolidated income statements during the Track Record Period, and the remaining amount of approximately RMB16.2 million is expected to be reflected in our consolidated income statements subsequent to the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations for 2018.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Accountant’s Report”	the report of the Reporting Accountant dated September 24, 2018, the text of which is set out in Appendix I to this prospectus
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of the Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix III to this prospectus
“Audit Committee”	a committee of the Board established by the Board for the purpose of overseeing the accounting and financial reporting processes of our Company and audits of the financial statements of our Company
“Ben & Partners”	Ben & Partners, our legal advisors as to Malaysian law
“Beijing Baichuantong”	Beijing Baichuantong Consultant Company Limited* (北京百川通諮詢有限責任公司), a limited liability company established in the PRC on January 18, 2010 and is owned as to 50% by Che Baozhen and 50% by Li Xiuxiang, being a connected person of our Company
“Beijing Futaotongda”	Beijing Futaotongda Consultant Company Limited* (北京富韜通達諮詢有限責任公司), a limited liability company established in the PRC on January 18, 2010 and is owned as to 90% by Shi Futao and 10% by Ms. Chen Ling (陳玲女士), being a connected person of our Company

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“Beijing Zhongmingxin”	Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司), a limited liability company established in the PRC on November 15 2007 and is owned as to 95% by Beijing Baichuantong Consultant and 5% by Beijing Futaotongda, being a connected person of our Company
“Bi Wenjing”	Ms. Bi Wenjing (畢文靜女士), one of our Controlling Shareholders and the spouse of Che Baozhen
“Board” or “Board of Directors”	the board of directors of the Company
“BOCI Asia Limited”	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under SFO
“business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate
“Cayman Companies Law” or “Companies Law”	the Companies Law (2018 Revision) of the Cayman Islands, Cap. 22 (Law 3 of 1961), as amended or supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“Che Baozhen”	Mr. Che Baozhen (車寶臻先生), our executive Director, our chief executive officer, one of our Controlling Shareholders and the spouse of Bi Wenjing
“Che Family”	refers to Che Hongzhi, Li Xiuxiang, Che Baozhen and Bi Wenjing, being our Controlling Shareholders
“Che Hongzhi”	Mr. Che Hongzhi (車宏志先生), our chairman and non-executive Director, one of our Controlling Shareholders and the spouse of Li Xiuxiang
“Chengshan Group”	Chengshan Group Company Limited (成山集團有限公司), a limited liability company established in the PRC on January 8, 1976 and one of our Controlling Shareholders
“Chengshan (Malaysia)”	Prinx Chengshan Tire (Malaysia) Sdn. Bhd (浦林成山輪胎(馬來西亞)有限公司*), a limited liability company incorporated in Malaysia on January 25, 2017, and is wholly owned by Chengshan Group
“Chengshan Trade”	Chengshan Trade (Hong Kong) Limited (成山貿易(香港)有限公司), a limited liability company incorporated in Hong Kong on May 7, 2014 and a subsidiary of Chengshan Group
“China” or “the PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau Special Administrative Region and Taiwan
“China FAW”	China FAW Group Co., Ltd.* (一汽解放汽車有限公司), our customer and an Independent Third Party
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

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“Company” or “our Company” or “the Company”	Prinx Chengshan (Cayman) Holding Limited (浦林成山(開曼)控股有限公司) (formerly known as Prinx (Cayman) Holdings Limited (浦林(開曼)控股有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on May 22, 2015
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refer to the controlling shareholders of our Company, being Chengshan Group, the Che Family and the Controlled Entities
“Controlled Entities”	refer to the entities ultimately controlled by the Che Family, being Rongcheng Dongsheng, Beijing Baichuantong, Beijing Zhongmingxin, Rongcheng Chengshan Food, Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Pucheng and Rongcheng Haocheng being our Group of Controlling Shareholders
“Cooper”	Cooper Tire & Rubber Company and its relevant subsidiaries and affiliates, as applicable, our customer and an Independent Third Party
“Cooper Chengshan”	Cooper Chengshan (Shandong) Tire Company Limited* (固鉑成山(山東)輪胎有限公司), now known as Prinx (Shandong) Tire
“Countries subject to International Sanctions”	are countries regarding which governments such as the U.S. or Australia, or governmental organizations, such as the EU or the UN, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries
“Customs AEO”	Customs Authorized Economic Operator

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated September 10, 2018 entered into by Chengshan Group and the Che Family in favour of the Company to provide certain indemnities, particulars of which are set out in “Statutory and General Information – D. Other Information – 1. Tax, estate duty and other indemnity” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition entered into between the Controlling Shareholders and the Company dated September 10, 2018 in respect of certain non-competition undertakings given by the Controlling Shareholders in favor of our Group
“Development Strategy and Risk Management Committee”	a committee of the Board established by the Board to discharge the Board’s responsibilities relating to the long-term development strategies and material investment decisions of our Company
“Director(s)”	the director(s) of the Company
“Dongfeng Liuqi”	Dongfeng Liuzhou Motor Co., Ltd.* (東風柳州汽車有限公司), our customer and an Independent Third Party
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law, promulgated on March 16, 2007 and became effective as of January 1, 2008 (《中華人民共和國企業所得稅法》)
“EIT Rules”	the Regulation on the Implementation of the PRC Enterprise Income Tax Law, promulgated on December 6, 2007 and became effective on January 1, 2008 (《中華人民共和國企業所得稅法實施條例》)
“ERP”	Enterprise Resource Planning
“EU”	the European Union
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., and independent global market research and consulting company which was founded in 1961 and is based in the United States

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“Frost & Sullivan Report”	an industry report prepared by Frost & Sullivan on the vehicle tires market, which was commissioned by the Company
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Greater China”	refers to China, Hong Kong and Macau as a unity
“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider designated by the Company, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company and our subsidiaries and, in respect of the period before we became the holding company of our present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Guotai Junan Securities (Hong Kong) Limited”	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed under the SFO and permitted to carry on type 1 (dealing in securities) and type 4 (advising on securities) regarding activities as defined under the SFO
“HKFRS”	Hong Kong Financial Reporting Standard
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong Offer Share(s)”	the 13,500,000 Shares initially offered by our Company for subscription pursuant to the Hong Kong Public Offering (subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus) for cash at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) and on the terms and subject to the conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated September 21, 2018 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters as further described in the section headed “Underwriting – Underwriting Arrangements and Expenses” in this prospectus
“Independent Third Party(ies)”	any party who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial Shareholders (within the meaning of the Listing Rules) of our Company, our subsidiaries or any of their respective associates and not otherwise a connected person of our Company

DEFINITIONS

“International Offer Share(s)”	the 121,500,000 Shares initially being offered by our Company pursuant to the International Offering for subscription at the Offer Price pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option (subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus)
“International Offering”	the offer of the International Offer Shares at the Offer Price, outside the United States in offshore transactions in accordance with Regulation S or any other available exemption for registration under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Sanctions”	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the EU and its member states, UN or the Government of Australia
“International Sanctions Legal Advisors”	Hogan Lovells, our legal advisors as to International Sanctions laws in connection with the Listing
“International Underwriters”	the group of international underwriters, led by the Sole Global Coordinator, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the international underwriting agreement expected to be entered into on or around October 2, 2018 by, among others, our Company, the Sole Global Coordinator and the International Underwriters in respect of the International Offering, as further described in the section headed “Underwriting – Underwriting Arrangements and Expenses – International Offering” in this prospectus
“Jiangling Auto”	Jiangling Motors Co., Ltd.* (江鈴汽車股份有限公司), our customer and an Independent Third Party

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“Joint Bookrunners”	Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited and Essence International Securities (Hong Kong) Limited
“Joint Lead Managers”	Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Essence International Securities (Hong Kong) Limited, Ever-Long Securities Company Limited and Freeman Securities Limited
“Latest Practicable Date”	September 17, 2018, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Li Xiuxiang”	Ms. Li Xiuxiang (李秀香女士), one of our Controlling Shareholders and the spouse of Che Hongzhi
“Listing”	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about Tuesday, October 9, 2018 on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix III to this prospectus
“MIIT”	Ministry of Industry and Information Technology of the People’s Republic of China
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)

DEFINITIONS

“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination and Remuneration Committee”	a committee of the Board established by the Board to discharge the Board’s responsibilities relating to the nomination and remuneration of Directors and executive officers of our Company
“OFAC”	The U.S. Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the final price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK\$7.50 and expected to be not less than HK\$5.89, at which Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and to be determined as further described in the section headed “Structure of the Global Offering – Determining the Offer Price” in this prospectus
“Offer Share(s)”	the Share(s) offered in the Global Offering, where relevant, including any additional Shares issued by our Company pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 20,250,000 additional Shares at the Offer Price to cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“PRC Commercial All Steel Radial Tires”	includes all kinds of All Steel Radial Tires excluding All Steel Radial Tires used by industrial vehicles

DEFINITIONS

“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Adviser”	King & Wood Mallesons
“Pre-IPO Investment”	the investment in the Company undertaken by the Pre-IPO Investor before the Listing, details of which are set out in the section headed “History, Reorganization and Corporate Structure – Pre-IPO Investment” in this prospectus
“Pre-IPO Investor” or “Sinotruk Capital”	Sinotruk (Hong Kong) Capital Holding Limited (中國重汽(香港)投資控股有限公司), a limited liability company incorporated in Hong Kong on December 10, 2013
“Pre-IPO Share Subscription Agreements”	the share subscription agreement dated July 21, 2015 entered into by and among the Company, the Pre-IPO Investor and Chengshan Group in respect of the subscription of the Series A Preferred Shares by the Pre-IPO Investor, as subsequently amended and supplemented on September 30, 2015, details of which are set out in the section headed, “History, Reorganization and Corporate Structure – Pre-IPO Investment”
“Pre-IPO Shareholders Agreements”	the shareholders agreement dated July 21, 2015 entered into by and among the Company, the Pre-IPO Investor and Chengshan Group in relation to the management and operation of the Group, as subsequently amended and supplemented on January 1, 2018 and March 5, 2018, details of which are set out in the section headed, “History, Reorganization and Corporate Structure – Pre-IPO Investment”
“Price Determination Agreement”	the agreement to be entered into by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price

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“Price Determination Date”	the date, expected to be on or around Tuesday, October 2, 2018 (Hong Kong time) and, in any event no later than Wednesday, October 3, 2018 (Hong Kong time) on which the Offer Price is determined by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters)
“Prinx (Europe)”	Prinx Chengshan Europe, s.r.o, a limited liability company incorporated in the Slovak Republic on May 13, 2016 and an indirect wholly-owned subsidiary of our Company
“Prinx Investment”	Prinx Investment Limited (浦林投資有限公司) (formerly known as Prairie Investment Limited (普瑞利投資有限公司)), a limited liability company incorporated in Hong Kong on June 6, 2014 and a wholly-owned subsidiary of our Company
“Prinx (R&D)”	Shandong Prinx Chengshan Tire Technology Research Company Limited* (山東浦林成山輪胎技術研究有限公司), a limited liability company established in the PRC on September 26, 2017 and is owned as to 62.5% by Prinx (Shandong) Tire, 30% by Prinx (Qingdao) and 7.5% by three Independent Third Parties, respectively, being an indirect subsidiary of our Company
“Prinx (Shandong) Tire”	Prinx Chengshan (Shandong) Tire Company Limited* (浦林成山(山東)輪胎有限公司) (formerly known as Cooper Chengshan (Shandong) Tire Company Limited* (庫珀成山(山東)輪胎有限公司) and Cooper Chengshan (Shandong) Tire Company Limited* (固鉑成山(山東)輪胎有限公司)), a sino-foreign equity joint venture established in the PRC on December 29, 2005, which was converted into a wholly foreign-owned enterprise on September 9, 2015 and an indirect wholly-owned subsidiary of our Company
“Prinx (Qingdao)”	Prinx Chengshan (Qingdao) Industrial Research & Design Company Limited* (浦林成山(青島)工業研究設計有限公司), a limited liability company established in the PRC on January 12, 2017 and an indirect wholly-owned subsidiary of our Company

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“Qingdao Zhianda”	Qingdao Zhianda Investment Company Limited* (青島智安達投資有限公司), a limited liability company established in the PRC on March 8, 2018 and an indirect wholly-owned subsidiary of our Company
“Qingling Auto”	Qingling Motors Co., Ltd.* (慶鈴汽車股份有限公司), our customer and an Independent Third Party
“R&D”	research and development
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the Corporate reorganization of our Group in preparation for the Listing as described in “History, Reorganization and Corporate Structure” in this prospectus
“Reporting Accountant”	PricewaterhouseCoopers
“RMB”	Renminbi, the lawful currency of the PRC
“Rongcheng Chengda”	Rongcheng Chengda Shareholding Investment Centre* (榮成成大股權投資中心), a limited partnership registered in nomination and the PRC on July 25, 2016, and its general partner is Rongcheng Dongsheng, being a connected person of our Company
“Rongcheng Chenghai”	Rongcheng Chenghai Shareholding Investment Centre* (榮成成海股權投資中心), a limited partnership registered in the PRC on July 25, 2016, and its general partner is Rongcheng Dongsheng, being a connected person of our Company
“Rongcheng Chenghong”	Rongcheng Chenghong Shareholding Investment Centre* (榮成成鴻股權投資中心), a limited partnership registered in the PRC on July 25, 2016, and its general partner is Rongcheng Leixiang, being a connected person of our Company
“Rongcheng Chengshan”	Rongcheng Chengshan Enterprise Management Consultant Company Limited* (榮成成山企業管理諮詢有限公司), a limited liability company established in the PRC on December 8, 2011 and is wholly-owned by Chengshan Group, being a connected person of our Company

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“Rongcheng Chengshan Energy-Saving Services”	Rongcheng Chengshan Energy-Saving Services Co., Ltd* (榮成成山節能服務有限公司), a limited liability company established in the PRC on September 27, 2011 and is wholly-owned by Chengshan Group, being a connected person of our Company
“Rongcheng Chengshan Food”	Rongcheng Chengshan Biological Food Technology Research & Development Company Limited* (榮成成山海洋食品技術開發有限公司), a limited liability company established in the PRC on September 3, 2003 and is wholly-owned by Bi Wenjing, being a connected person of our Company
“Rongcheng Chengshan Properties”	Rongcheng Chengshan Properties Co., Ltd* (榮成成山物業有限公司), a limited liability company established in the PRC on May 22, 2006 and is directly and indirectly owned by Chengshan Group, being a connected person of our Company
“Rongcheng Chengyuan”	Rongcheng Chengyuan Shareholding Investment Centre* (榮成成源股權投資中心), a limited partnership registered in the PRC on July 25, 2016 and its general partner is Rongcheng Dongsheng, being a connected person of our Company
“Rongcheng Chengzhan”	Rongcheng Chengzhan Shareholding Investment Centre* (榮成成展股權投資中心), a limited partnership registered in the PRC on July 25, 2016 and its general partner is Rongcheng Fucheng, being a connected person of our Company
“Rongcheng Dongsheng”	Rongcheng Dongsheng Property Rental Company Limited* (榮成東晟房屋租賃有限公司), a limited liability company established in the PRC on December 16, 2015 and is wholly-owned by Che Baozhen, being a connected person of our Company
“Rongcheng Fucheng”	Rongcheng Fucheng Business Information Consultant Company Limited* (榮成富成商貿信息諮詢有限公司), a limited liability company established in the PRC on June 30, 2016 and is wholly-owned by Shi Futao, being a connected person of our Company

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“Rongcheng Haocheng”	Rongcheng Haocheng Shareholding Investment Centre* (榮成浩成股權投資中心), a limited partnership registered in the PRC on July 25, 2016 and its general partner is Beijing Zhongmingxin, being a connected person of our Company
“Rongcheng Hongsheng”	Rongcheng Hongsheng Shareholding Investment Centre* (榮成鴻昇股權投資中心), a limited partnership registered in the PRC on July 25, 2016 and its general partners is Rongcheng Dongsheng, being a connected person of our Company
“Rongcheng Leixiang”	Rongcheng Leixiang Business Information Consultancy Company Limited* (榮成雷翔商貿信息諮詢有限公司), a limited liability company established in the PRC on June 30, 2016 and is wholly-owned by Wang Lei, being a connected person of our Company
“Rongcheng Pucheng”	Rongcheng Pucheng Shareholding Investment Centre* (榮成浦成股權投資中心), a limited partnership registered in the PRC on July 25, 2016 and its general partners is Beijing Zhongmingxin, being a connected person of our Company
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC Hongyan”	SAIC-IVECO Hongyan Commercial Vehicle Co., Ltd., our customer and an Independent Third Party
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the U.S., EU, UN or Australia
“SDN List”	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons

DEFINITIONS

“Series A Preferred Shares”	the series A convertible redeemable preferred shares with a par value of US\$0.00005 in the capital of the Company issued to the Pre-IPO Investor pursuant to “the Pre-IPO Share Subscription Agreement”
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of US\$0.00005 each
“Shareholder(s)”	holder(s) of Shares
“Shi Futao”	Mr. Shi Futao (石富濤先生), our executive Director and our chief financial officer
“Sinotruk Group”	China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司), our customer and an Independent Third Party
“Sinotruk International”	Sinotruk (Hong Kong) International Investment Limited (中國重汽(香港)國際資本有限公司), a limited liability company incorporated in Hong Kong on August 6, 2004, being the sole shareholder of our Pre-IPO investor
“Sole Global Coordinator”	Guotai Junan Securities (Hong Kong) Limited
“Sole Sponsor”	BOCI Asia Limited
“sq. feet”	square feet
“sq.m.”	square meter
“Stabilising Manager”	Guotai Junan Securities (Hong Kong) Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)

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“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilising Manager (or its affiliates acting on its behalf) and Chengshan Group, pursuant to which the Chengshan Group will agree to lend up to 20,250,000 Shares to the Stabilizing Manager on terms set forth therein
“subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Supplemental Pre-IPO Share Subscription Agreement”	the supplemental subscription agreement to “the Pre-IPO Share Subscription Agreement” dated September 30, 2015 entered into between the Pre-IPO Investor and our Company
“Takeovers Code”	Codes on Takeovers and Mergers and Share Buy-backs
“Track Record Period”	the period comprising the three financial years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018
“UN”	the United Nations
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America
“U.S. dollars” or “US\$”	U.S. dollars, the lawful currency of the United States of America
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“Wang Lei”	Mr. Wang Lei (王雷先生), our non-executive Director and one of our substantial Shareholders

DEFINITIONS

“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at <u>www.eipo.com.hk</u>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

In this prospectus, the terms “associate” “close associate” “connected person” “connected transaction” “controlling shareholder” “core connected person” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

“All Steel Radial Tire(s)”	a type of Radial Tire where all of the cord plies is made of steel and is typically used on commercial vehicles
“Bias Tire(s)”	a pneumatic tire in which the cord piles of body ply and the buffer layer intersect and are arranged at an angle of less than 90 degrees with respect to the tread centerline.
“CCC”	China Compulsory Certificates, a certificate for products listed under a unified product catalogue under compulsory certification, which are required to pass the relevant qualification tests before being dispatched to customers
“CNAS”	China National Accreditation Service for Conformity Assessment
“DOT”	the Department of Transportation of the United States
“ECE”	the Economic Commission for Europe
“GSO”	GCC Standard Organization
“IATF”	the International Automotive Task Force, an “ad hoc” group of automotive manufacturers and their respective trade associations, which aim to provide improved quality products to automotive customers worldwide
“INMETRO”	The National Institute of Metrology, Standardization and Industrial Quality of Brazil
“ISO”	the International Organization for Standardization
“ISO9002”	one of the core quality standards of the ISO-9000 series which were developed to assist business organizations in implementing and operating an effective quality management system; ISO-9002 specifies the requirements for a quality management system of an organization to ensure the quality of its production, installation and service

GLOSSARY OF TECHNICAL TERMS

“lean six sigma doctrine”	a set of techniques and tools for process improvement, which seeks to improve the quality of the output of a process by identifying and removing the causes of defects and minimizing variability in manufacturing and business processes
“MES”	manufacturing execution system
“Private Label customers”	means customers who will apply their private brands to the products outsourced to and manufactured by our Company
“R117”	refers to the Regulation No 117 of the Economic Commission for Europe of the United Nations (UN/ECE) – Uniform provisions concerning the approval of tires with regard to rolling sound emissions and to adhesion on wet surfaces and/or to rolling resistance
“Radial Tire(s)”	a design of tire where the cord plies are arranged radially, meaning at 90 degrees, to the direction of travel
“Semi-Steel Radial Tire(s)”	a type of Radial Tire where a portion of the cord plies is made of steel and is typically used on passenger vehicles or light trucks
“SIRIM”	the Malaysian Standard for product certification
“SNI”	the Indonesian National Standard
“SUV”	Sports Utilities Vehicle
“vehicle model(s)” or “model(s)”	a particular brand of vehicle sold under a marque by a manufacturer, usually with a range of models which are of different sizes or capabilities

FORWARD-LOOKING STATEMENTS

Our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with an investment in our Company before making any investment decision regarding our Company. Particular attention should be paid to the fact that our Company is incorporated in the Cayman Islands and some of our Group's subsidiaries are located in the PRC and are governed by legal and regulatory environments which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, financial position or on the trading price of the Shares, and could cause the loss of all or part of such investment.

This prospectus also contains "forward-looking statements" that involve risks and uncertainties. The actual results of our Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by our Group as described in this prospectus. If any of the following considerations and uncertainties develops into actual events, our business, financial position or results of operations may be materially adversely affected. In such circumstances, the trading price of the Shares could decline and may cause the loss of all or part of such investment.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We are exposed to risks posed by fluctuations in the prices of raw materials, and any substantial fluctuation in prices for these commodities could have a material adverse effect on our business, financial condition and results of operations.

Our operating results, particularly profit margins, are significantly affected by the cost of raw materials applied to produce our products. Our raw material costs constituted over 70% of our total cost of sales for each of the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Certain raw materials that are critical to our production processes are subject to significant fluctuations due to market conditions, including natural rubber, synthetic rubber, steel wire cords and carbon black. Rubber prices are affected by numerous factors beyond our control, including worldwide rubber supply and demand, the level of global economic activity, condition of the financial market, regional political developments, and climate conditions. For further details, please refer to section headed "Industry Overview – Competitive Landscape of China Domestic Brand Automotive Tire Market – Price Trend of Major Raw Materials".

Due to changes in national policies in the automotive industry and natural disasters in rubber production areas, the price of natural rubber rose at the end of 2016 and fell sharply in the first half of 2017, resulting in a drop in our profit margin. We have implemented policies to monitor key raw material price movements, but we cannot assure you that we will be able to continue to predict future price movements with certainty or manage our raw material costs effectively. For further details, please refer to section headed "Business – Raw Materials – Price Fluctuations".

As it is generally difficult to immediately pass through all of the increases in our raw material costs to our customers in the form of price increases, fluctuations in the prices of the raw materials that we rely on could materially adversely affect our business, financial condition and results of operations.

RISK FACTORS

General economic conditions and other factors causing a material contraction in vehicle sales and production could have a material adverse effect on our business, financial condition and results of operations.

Our business is directly related to vehicle sales and production, particularly commercial vehicles, which depend on, among other things, general economic conditions, consumer spending and government policies. Unfavorable financial or economic conditions could lead to reduced consumer spending, which in turn could adversely affect the sales of vehicles and our products. Furthermore, public and consumer spending on vehicles can be affected by a number of factors, including fiscal and financial policy, general economic condition, changes in discretionary income, fuel costs, the availability and cost of consumer financing, and vehicle replacement cycles. As the volume of vehicle production changes, the demand for our products also fluctuates.

In particular, sales of our products in the PRC and Americas most notably affect us given our concentration of sales in those regions. Sales in the PRC accounted for approximately 54.2%, 56.7%, 58.8% and 61.4% of our total revenue, and sales in Americas accounted for approximately 20.4%, 20.4%, 17.7% and 17.5% of our total revenue for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Any material reduction in demand from either or both of the aforementioned markets could adversely affect our business, financial condition and results of operations.

Our plans for capacity expansion, business development and investment is subject to uncertainty and the assumptions used by us may not be appropriate or accurate.

We intend to expand our All Steel Radial Tires and Semi-Steel Radial Tires production capacities. Please see “Business – Production Capacity – Expansion Plans” for further details. The progress of such development projects are subject to various factors, including timely delivery and successful installation of key equipment. In addition, whether such projects may be completed within budget is subject to the accuracy of the assumptions we used in the project design and engineering. We cannot assure you that our assumptions are accurate or that our expansion projects will be completed on time or on budget. Any failure or delay in project construction or any unexpected cost or cost overrun could have an adverse effect on our business, financial condition and results of operations.

Furthermore, in accordance with our business development strategy, we are considering acquiring or investing in projects, including projects that are located in foreign countries. Please see “Business – Strategies” and “Relationship with Controlling Shareholders – Retained Business” for further details. In deciding whether to invest in or acquire a particular asset or business, we consider multiple factors, including the location of such project and whether it allows/helps us to (i) better manage our production costs, (ii) readily access our target market, (iii) participate in the “one belt one road” initiative, and (iv) mitigate the risks that comes with trade regulations, such as anti-dumping and anti-subsidy duties. However, there can be no assurance that these factors and the assumptions used and considered by us in performing our analysis are appropriate or accurate. Uncertainty in the assumptions used to make our investment and acquisition decisions, may affect our projections for the projects we intend to acquire or invest in. Such uncertainties include but not limited to:

RISK FACTORS

- limitation or additional cost in relation to our planned investment imposed by governmental policies of the local jurisdiction;
- uncertainty or instability of geopolitics of targeted investment jurisdiction;
- unidentified issues not discovered in our due diligence process, such as hidden liabilities and legal contingencies;
- failure to effectively integrate acquired assets and talent into our corporate structure and culture;
- difficulties in retaining key employees of the acquired business;
- failure to realize synergies expected from acquisitions or business partnerships; and
- unexpected delays in completing any such acquisitions.

Our management team members have relatively limited prior experience in making overseas investment and our Group has not made any overseas acquisition to date. Experience that our management team members gathered in prior investment may not be readily applicable in the future investment our Group may plan to make. Our management team members also do not have ample experience in executing and completing overseas investment. As such, our ability to mitigate uncertainties or timely resolve difficulties may be limited, which may in turn increase the cost of the planned investment. If the projections for the projects we intend to acquire or invest in are significantly different from actual results, we may not be able to generate sufficient revenue to offset the costs and expenses incurred for such expansion project. Failure to achieve the intended result or receive the expected benefits may adversely affect our business, financial condition and results of operations.

Our revenue and profitability could be materially adversely affected if we fail to maintain existing relationships with our customers.

We derive substantially all of our revenue from sales to (i) distributors, (ii) vehicle manufacturers and (iii) Private Label customers. As of December 31, 2015, 2016, 2017 and March 31, 2018, we had 173, 193, 200 and 247 distributors in the PRC, respectively, and 80, 98, 156 and 157 distributors that sell our products in overseas markets for the same periods. For the year ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, sales to our distributors accounted for 51.6%, 57.4%, 64.4% and 59.8% of our total revenue, respectively. According to the Frost & Sullivan Report, as demand for replacement tires is projected to continue to show a stable growth, we expect that our sales to distributors, which primarily serve the tire replacement market, will continue to constitute a substantial portion of our total revenue in the foreseeable future. Any negative change to such market would adversely affect our business, financial condition and results of operations. Moreover, we rely on distribution agreements to ensure that our distributors adhere to our retail policies. There is no assurance, that our distributors will comply with our retail policies or follow our strategies at all times or that they will enter into renewed agreements with us at commercially reasonable terms or at all. If any of our major or key distributors fails to adhere to its contractual obligation or fails to comply with our policies, our brand image, reputation, brand value, business, financial condition and results of operations will be materially and adversely affected.

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In addition to distributors, we conduct direct sales to vehicle manufacturers and Private Label customers. For further details, please see sections headed “Business – Sales and Customers – Direct Sales to Vehicle Manufacturers” and “Business – Sales and Customers – Private Label customers” in this prospectus. For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, sales to our vehicle manufacturer customers constituted 21.5%, 17.7%, 20.1% and 24.9% of our total revenue, respectively. We collaborate closely with our vehicle manufacturer customers to design products with specified sizes or features to match the relevant vehicle design. Any failure to effectively manage our relationship with, or the inability to supply products in the required quantity and quality to, our vehicle manufacturer customers could lead our customers to demand for our competitor’s products. Such adverse development would in turn materially adversely affect our business, financial condition and results of operations.

Our revenue and profitability could be materially adversely affected if we fail to maintain existing relationship with Cooper.

Revenue we derived from our largest customer, Cooper, amounted to RMB740.0 million, RMB784.3 million, RMB715.9 million, RMB180.8 million, representing 21.0%, 20.5%, 14.8% and 13.3% of our total sales for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Sales of our products to Private Label customers are dependent on their continued growth, viability and financial stability and the agreement with Private Label customers. Moreover, we supply to Cooper pursuant to two offtake agreements which are both set to expire at June 30, 2019. For further details, please see section headed “Business – Sales and Customers – Private Label customers – Relationship with Cooper”. To the extent that we cannot maintain our existing level of business with Cooper or other large customers or because these offtake agreements expire, are terminated or are not renewed, we will need to procure new customers or seek new business with existing customers. If we are not able to do so, our business, financial condition and results of operations could be materially and adversely affected.

We are subject to credit risk in respect of the recoverability of our accounts receivables from our customers.

Our net accounts receivables as of December 31, 2015, 2016, 2017 and March 31, 2018 were RMB412.4 million, RMB528.7 million, RMB522.0 million and RMB757.9 million, respectively. Should the creditworthiness of our customers deteriorate or should a significant number of our customers fail to settle their accounts receivables in full for any reason, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected.

In 2015, 2016, 2017 and the three months ended March 31 2018, the average trade receivables turnover days were approximately 82 days, 68 days, 66 days and 70 days, respectively. We generally grant our customers a credit period of no more than two months. There may be a risk that our customers’ financial condition deteriorates quickly within the granted credit period which we may become unaware of, or it may be possible that the customers dispute the amount payable to our Group, which in either case may also result in an impairment provision for our receivables.

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In addition, we had net cash outflow from operating activities in the amount of RMB68.9 million in the three months ended March 31, 2017, mainly due to a temporary increase of our trade receivables during the period. If we experience similar increase of trade receivables for a protracted period of time in the future, it could exert pressure on our short-term liquidity and materially adversely affect our financial condition and results of operations.

There is no assurance that we will be able to fully recover our accounts receivables from our customers or that they will settle our accounts receivables in a timely manner. In the event that the settlements from our customers are not made on a timely manner, the financial position, profitability and cash flow of our Group may be adversely affected.

Our operating results are subject to various international trade regulations, quotas, tariffs and duties, including anti-dumping and anti-subsidy.

During the Track Record Period, we have a diverse group of customers located in approximately 130 countries. From time to time, the countries to which we sell our products may impose additional quotas, duties or tariffs that are applicable to us. In particular, there have been anti-dumping and anti-subsidy investigations against tire products from China in the United States and several other major tire markets. Such investigations and corresponding anti-dumping duties or anti-subsidy duties were also applicable to our Group, and our Group's importers in the United States or other markets paid deposits based on the anti-dumping duties/anti-subsidy duties applicable to our Group. Our sales amount to the United States was RMB512.3 million, RMB646.2 million, RMB622.2 million and RMB186.9 million for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, which accounted for 14.5%, 16.9%, 12.9% and 13.8% of our total sales revenue for the same periods. On August 10, 2015, the anti-dumping order (the "AD Order") and countervailing order (the "CVD Order") issued by the U.S. Department of Commerce (the "U.S. DOC") to implement anti-dumping duties (the "AD") and countervailing duties (the "CVD") on passenger vehicles and light truck tires imported from the PRC came to effect, and the AD rate was 14.35% to 87.99%, and the CVD rate was 20.73% to 116.33%, which in turn has adversely affected sales of our Semi-Steel Radial Tires in the United States.

As Cooper was no longer a Shareholder of our Group since November 10, 2014 and the company name of our Group was changed, both AD rate and CVD rate under AD Order and CVD Order issued on August 5, 2015, which was 25.84% and 20.73% respectively, that were previously applicable to Cooper Chengshan were not applicable to our Group as a result of the change of entity name from Cooper Chengshan to Prinx (Shandong) Tire in November 2014 following the divestiture by Cooper of its interest. After the enactment of the AD Order and CVD Order, the AD rate and CVD rate applicable to the passenger vehicles and light truck tires exported to the U.S. by the Group was 87.99% and 30.61% respectively.

After the AD Order was promulgated, US importers of our Group are required to pay cash deposits to the U.S. Customs in accordance with the AD rate applicable to the Group abovementioned to secure the payment of the estimated AD in relation to the export of the relevant products from China and imported into the United States.

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According to the United States’ annual administrative review procedure for anti-dumping and the AD Order against the passenger vehicles and light truck tires imported from the PRC issued by the United States, in August each year, interested parties have the right to apply to the U.S. DOC for a review of the annual administration of the Group. If the Group participates in the annual administrative review, the AD rate applicable to Group will depend on the final result of the annual administrative review.

After the completion of the annual administrative review investigation, the U.S. DOC would confirm the final AD rate of the annual review and instruct the U.S. Custom and Border Protection (the “USCBP”) to refund any cash deposits made to secure the payment of the estimated AD in relation to the export of the relevant products from China and imported into the United States in accordance the final AD rate.

The following table sets forth the estimated AD rates and final AD rates applicable to our Group throughout the Track Record Period:

<u>Period</u>	<u>Estimated or final rates</u>	<u>AD rates</u>
January 1, 2015 to January 26, 2015	N/A	N/A <i>(Note 1)</i>
January 27, 2015 to July 31, 2016	Estimated Final rate finalized on March 16, 2018	87.99% 2.96%
August 1, 2016 to July 31, 2017	Estimated Final rate	87.99% 2.96% <i>(Note 2)</i>
July 31, 2017 to March 31, 2018	Estimated Final rate	87.99% <i>(Note 3)</i> To be finalized <i>(Note 3)</i>

Notes:

- AD rates were paid by importers before January 27, 2015. As an exporter, our Group was not required to pay any AD for the period from January 1, 2015 to January 26, 2015.
- Since our Group did not export any relevant products to the United States during AD Investigation, the final AD rate was the same as the final AD rate finalized on March 16, 2018.
- The estimated AD rate is currently subject to annual review of AD Investigation. The final AD rate will be adjusted based on our export quantity to the United States during AD Investigation and is expected to be finalized by the U.S. DOC in March or April, 2020. On the basis that our Group did not and will not export any relevant products to the United States during AD Investigation, the AD rate finalized on March 16, 2018 is expected to be the final AD rate for the period between July 31, 2017 and December 31, 2017.

With reference to the CVD Order, the estimated CVD rate in percentage of 20.73% applicable to Cooper Chengshan throughout the Track Record Period was not applicable to our Group due to the changes of the Group’s Shareholders and the name. Therefore the CVD rate applicable to our Group was 30.61% after the CVD Order. Our Group’s importers was required

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to pay cash deposits which was equal to the CVD rate of 30.61% under the CVD Order to secure the payment of the estimated CVD in relation to the export of the relevant products from China and import into the United States.

According to the United States' annual administrative review procedure for anti-subsidy and the CVD Order on the passenger vehicles and light truck tires imported from the PRC issued by the United States, in August each year, interested parties have the right to apply to the U.S. DOC for a review of the annual administration of the Group. If the Group participates in the annual administrative review, the CVD rate applicable to the Group will depend on the final result of the annual administrative review.

After the completion of the annual administrative review investigation on VCD, the U.S. DOC would further instruct the USCBP to refund any cash deposits made to secure the payment of the estimated CVD with respect to entries of the subject merchandise entered, or withdrawn from the warehouse in accordance the final CVD rate.

The following table sets forth the estimated CVD rates and final CVD rates applicable to our Group throughout the Track Record Period:

<u>Period</u>	<u>Estimated or final rates</u>	<u>CVD rates</u>
January 1, 2015 to December 31, 2015	Estimated rate	20.73%
	Final rate finalized on March 16, 2018	19.13%
January 1, 2016 to December 31, 2016	Estimated rates	30.61%
	Final rate	19.13% (<i>Note 1</i>)
January 1, 2017 to December 31, 2017	Estimated rate	30.61%
	Final rate	To be finalized (<i>Note 2</i>)
January 1, 2018 to March 31, 2018	Estimated rate	30.61%
	Final rate	To be finalized (<i>Note 3</i>)

Notes:

1. Since our Group did not export any relevant products to the United States during CVD Investigation, the final CVD rate was the same as the final CVD rate finalized on March 16, 2018.
2. The estimated CVD rate was currently subject to CVD Investigation. The final CVD rate will be adjusted based on our export quantity to the United States during CVD Investigation and is expected to be finalized by the U.S. DOC in March or April, 2020. On the basis that our Group did not and will not export any relevant products to the United States during CVD Investigation, the CVD rate finalized on March 16, 2018 will be the final CVD rate for the period between January 1, 2017 and December 31, 2017.
3. The estimated CVD rate was currently subject to CVD Investigation. The final CVD rate will be adjusted based on our export quantity to the United States during CVD Investigation and is expected to be finalized by the U.S. DOC in March or April, 2021.

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Recent tariff imposed by the United States government on products imported from the PRC could materially adversely affect our financial position and results of operations.

In 2018, the United States government has announced its intention to impose and/or heighten tariffs on steel and aluminum products imported from the PRC, and has recently indicated that it seeks to impose new tariff on additional products (excluding tires temporarily, but it is uncertain in the future). In response, the PRC government has stated that it intends to promulgate trade restrictions on selected categories of products imported from the United States. These events could cause uncertainty surrounding our business.

In April 2018, the United States government published a proposed regulation entitled “Notice of Determination and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation” (the “**First Notice**”), which proposes to impose an additional 25% tariff on a list of products from China, including several types of pneumatic tires typically used on aircraft and tire-related products. The final list of products subject to this additional 25% tariff pursuant to the First Notice was published in June 2018 and the regulation came into effect on July 6, 2018, and none of our products are subject to the additional 25% tariff. However, on July 11, 2018 the United States government published “Request for Comments Concerning Proposed Modification of Action Pursuant to Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation” (the “**Second Notice**”), which proposed to impose an additional 10% tariff on a further list of products imported from China. The proposed list of the Second Notice currently includes all products we exported to the United States during the Track Record Period. On August 1, 2018, the United States government indicated it is exploring the possibility of increasing the proposed tariff of the Second Notice from 10% to 25%. Revenue generated from sales to customers in the United States was RMB512.3 million, RMB646.2 million, RMB622.2 million and RMB186.9 million, and accounted for 14.5%, 16.9%, 12.9% and 13.8% of our total sales revenue in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. As such, for illustrative purposes, if such tariff were imposed on us and the negative impact were unmitigated and completely assumed by us, a 10% additional tariff would have reduced our gross profit by RMB51.2 million, RMB64.6 million, RMB62.2 million and RMB18.7 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively; and a 25% additional tariff would have reduced our gross profit by RMB128.1 million, RMB161.6 million, RMB155.6 million and RMB46.7 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. The final list of products subject to this additional tariff pursuant to the Second Notice was announced on September 17, 2018, which included all tires we exported to the United States during the Track Record Period. According to the announcement, the additional tariff was set at 10% and will become effective as of September 24, 2018. The announcement also expressed the United States government’s intention to raise this additional tariff to 25% in 2019. Our business, financial condition and results of operations could be materially and adversely affected by this new development.

Furthermore, any additional trade restrictions such as anti-dumping duties, anti-subsidy duties, tariffs or quota fees imposed by foreign countries could significantly increase the prices of our products in such countries and thereby, reducing their demand and price-competitiveness overseas. If we were not able to pass such additional costs on to our customers, or replace with new customers, our business, financial position and results of operations would be adversely affected. As we cannot accurately predict whether any anti-dumping duties, anti-subsidy duties,

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tariffs or quota fees will be imposed in the future, we do not make any provisions in our accounts for any anti-dumping duty payments, anti-subsidy duties, tariffs or quota fees. We cannot assure you that future international trade regulations, quotas, tariffs and duties will not increase our costs nor provide our competitors with an advantage over us. As such, any of the above may have a material adverse effect on our business, financial condition and results of operations.

Our failure to develop, maintain and enhance our brand and reputation may materially adversely affect the level of market recognition and demand of our products.

Our products are a fundamental component to ensuring the safety and efficient operation of each vehicle, and our customers highly emphasize on the quality and safety of our products. We have established a strong track record of providing quality products. We believe that our medium to premium brand “Prinx” and well-established “Chengshan”, “Austone” and “Fortune” brands are seen to encompass quality, reliability and high performance among customers. Our brands, reputation and product sales could be affected by a number of factors, including but not limited to: (i) expectations of our customers; or (ii) quality of customer service. Our success depends on our ability to continue to introduce high performance, industry-leading products. Achieving market acceptance of new products requires substantial expenditures and is subject to uncertainty. If we introduce products that do not meet the expectations of our customers, it could materially and adversely affect our brand image and our business, financial condition and results of operations.

We face intense competition in tire industry, which could materially and adversely affect our profitability.

The tire industry is highly competitive in the PRC and worldwide. Competition is based primarily on price, quality, functions, delivery and overall customer service. For further details, please refer to section headed “Business – Competition” for further in this prospectus. Especially from companies in certain regions of the world where raw material, labor and other costs may be lower than ours, may result in lower selling prices or reduce demand for some of our products. Furthermore, some of our competitors could receive governmental subsidies that are not available to us. These advantages over us may enable them to market, promote and sell their products more effectively and develop stronger relationships with customers. Our industry requires substantial investments in manufacturing, machinery, research and development, product design, and marketing in order to meet both consumer preferences and regulatory requirements. If our competitors consolidate or enter into strategic alliances, they may be able to take better advantage of these economies of scale. Any such consolidation or strategic alliance by our competitors could adversely affect our business and prospects.

To compete effectively in the tire industry, we must be able to launch new products to meet changing consumer preferences and our customers’ demands in a timely and cost-effective manner. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis is crucial to us remaining competitive. We may not be able to respond adequately to competitive pressures or react quickly to other changes in the market, which could have a material adverse effect on our business, financial condition and results of operations.

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We are also subject to the risks associated with new product introductions and applications, including lack of market acceptance, delays in product development or production and failure of products to operate properly. We intend to continue to introduce new products and services to further diversify our revenue streams. Investment in the development of new products may not generate sufficient earnings in the event that competitors release new products to the market more rapidly than we do or if alternative products are preferred by the market, in which case our business, financial condition and results of operations may be adversely affected.

We have previously made sales to distributors in Countries subject to International Sanctions administered by U.S., and we could be adversely affected if these sales result in penalties on our Group.

The U.S. and other jurisdictions or organisations, including the EU, the UN and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we made sales to certain countries subject to International Sanctions, including sales of our tires to certain distributors and delivered to Iran, Sudan, Syria, Afghanistan, Balkans, Belarus, Croatia, Egypt, Eritrea, Lebanon, Libya, Mali, Myanmar, Russia, Somalia, Ukraine, Venezuela and Yemen. Iran and Syria are subject to very comprehensive economic sanctions and Sudan was subject to OFAC's comprehensive sanctions program up to October 12, 2017. To the best knowledge of our Directors, our revenue derived from sales to the distributors who onward sold our products to the aforementioned countries that are subject to International Sanctions amounted to approximately RMB187.1 million, RMB197.0 million, RMB274.0 million and RMB72.7 million, respectively, representing approximately 5.3%, 5.2%, 5.7% and 5.4% of our total revenue for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. To the best knowledge of our Directors, during April and May 2018, our revenue derived from sales to the distributors who onward sold our products to the aforementioned countries that are subject to International Sanctions amounted to RMB52.8 million. As advised by our International Sanctions Legal Advisor, five payments in an aggregate amount of approximately US\$1,502,473 received from third-party intermediaries with respect to our goods sold to distributors and delivered directly to Iran and Syria appear to be potential violations of U.S. sanctions regulations that are applicable to transactions with Iran and Syria, respectively. For further details and our potential risk exposure, please refer to section headed "Business – Business Activities in Countries Subject to International Sanctions" in this prospectus.

While we have implemented internal control measures to minimize our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated

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sanctions. Our business and reputation could be adversely affected if the authorities of U.S., the EU, the UN, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group. For details of our business operations in the Countries subject to International Sanctions and our undertakings to the Hong Kong Stock Exchange and its related group companies, please refer to section headed “Business – Business Activities in Countries Subject to International Sanctions” in this prospectus.

We may be subject to product liability or warranty claims that are beyond our insurance coverage which could result in significant direct or indirect costs, or we could experience greater produce returns than expected, which could harm our business and operating results.

We face inherent business risk of exposure to warranty claims that are beyond our insurance coverage which product liability actions in the event that our products fail to perform as expected and, in the case of product liability actions. For further details, please refer to section headed “Business – Sales and Customers – Warranty” in this prospectus. Any negative publicity related to the perceived quality and safety of our products could affect our brand image, decrease customer demand, and adversely affect our operating results and financial condition. Furthermore, our customers might look to its suppliers for indemnification or contribution when faced with product liability claims. Any such insurance may not provide adequate coverage against potential claims. For further details, please refer to section headed “Business – Insurance” in this prospectus. A product liability claim brought against us in excess of our available insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

We consume large amount of utility in our production process and scaled disruption in the supply of utility would materially and adversely affect our business, financial condition and operating results.

Our production process relies on a constant and sufficient supply of utilities, including steam, water and electricity. We do not maintain our own thermal power station. For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, our cost of utilities amounted to RMB185.4 million, RMB194.7 million, RMB221.9 million and RMB56.7 million, representing 6.6%, 6.5%, 5.4% and 5.2% of our cost of good sold, respectively. We entered into a new utility charge agreement with Chengshan Group at January 1, 2018, pursuant to which we share electricity and steam supply with Chengshan Group and in return, we shall pay costs for such utilities to Chengshan Group. Please refer to section headed “Continuing Connected Transactions – Fully Exempt Continuing Connected Transaction – Utility sharing services” for further details. The agreement will be effective for three years.

There is no guarantee that our utility supply and electricity supply will not be disrupted in the future, or we can renew the agreement at favorable terms when it expires. If any of the foregoing occurs, we may experience substantial losses, including loss of revenue from

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disrupted production, or we may have to pay a higher procurement cost as a result and our cost of production may substantially increase, which could materially and adversely affect our business, financial condition and results of operations.

Our investments in research and development may not necessarily lead to timely improvements in technology and we may not be able to respond adequately and promptly to technological changes in the industry in which we operate.

Our growth relies on our ability to develop new products and/or improve the quality of our existing products. For instance, we have been developing tire for the electronic vehicles. If we fail to accurately assess the market and technology trends, anticipate market developments and direct our efforts to relevant product development projects, our business, operating results and financial condition could be materially and adversely affected. If we fail to develop appropriate products with acceptable quality or lag behind our competitors in improving our product quality or product range, we may not be able to maintain our market position and our operating results and prospects could be adversely affected. The unavailability and insufficiency of capital for product development projects and any areas where our employees' experience may be lacking could also affect our research and development plans.

Any labor shortages, increased labor cost or other factors affecting our labor force may adversely affect our business, profitability and reputation.

For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, employee benefit expenses amounted to approximately RMB279.6 million, RMB314.6 million, RMB356.1 million and RMB95.1 million, respectively, representing 8.7%, 9.2%, 7.8% and 7.8% of total expense for such periods, respectively. To sustain the growth of our business, we may need to increase our workforce to implement our expansion plans and to enhance the operating efficiency of our existing production facilities. In the event of labor shortages, we may have difficulties in recruiting or retaining employees or may face increasing labor costs. Given the recent economic growth in the PRC, competition for qualified personnel is substantial and labor costs have been increasing generally. Any failure to attract and retain qualified personnel at reasonable cost and in a timely manner could reduce our competitive advantages relative to our competitors. We cannot assure you that labor disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our workers could adversely affect our business, financial condition or operation results.

If we are unable to maintain our utilization rates of our production facilities, our margins and profitability may be materially and adversely affected.

Utilization rates of our production facilities allow us to allocate fixed costs over a greater number of products produced, thus increasing our profit margins. The utilization rates for both our All Steel Radial Tires and Semi-Steel Radial Tires production lines increased year to year during the Track Record Period. The utilization rate for All Steel Radial Tires was 76.0%, 91.9%, 96.0% and 95.8% for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. In particular, utilization rates for the years ended

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December 31, 2016, 2017 and the three months ended March 31, 2018 were all close to full capacity. The utilization rate for Semi-Steel Radial Tires was 56.5%, 65.7%, 85.7% and 80.7% for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. The utilization rates may also be affected by various other factors, such as skills of our employees, adverse weather conditions, natural disasters and breakdown of our production equipment. There is no assurance that we will be able to maintain a comparable level of output and utilization rates of our production facilities in the future. In the event we are unable to maintain our utilization rates or achieve higher utilization rates for any or all of our production facilities, our business, financial condition and operation results may be materially and adversely affected.

We may not be able to efficiently manage our inventory risks.

Our inventories were RMB607.7 million, RMB625.7 million, RMB687.2 million and RMB597.0 million as of December 31, 2015, 2016, 2017 and March 31, 2018, respectively. Our scale and business model require us to manage a large volume of inventory effectively. Although we try to minimize our inventory risk by placing orders with our suppliers after consolidating orders received from our customers, our customers may cancel orders with us, and we may not be able to resell those products. In addition, we depend on our demand forecasts to make production decisions and to manage our inventory. Demand for products, however, can change significantly between the order time and the date by which we hope to sell it, and as such we may fail to manage our inventory effectively.

If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Any of the above may materially and adversely affect our results of operations and financial condition.

The fair value measurement of certain of our financial assets or liabilities is subject to significant uncertainties and risks and the fair value of such financial assets or liabilities may materially and adversely affect our results of operations.

During the Track Record Period, we purchased and disposed of two types of financial products, namely, (i) short-term wealth management products which were recognized as available-for-sale financial assets prior to January 1, 2018 and as financial assets at fair value through profit or loss after January 1, 2018 as a result of the adoption of HKFRS 9 and (ii) currency swaps which were recognized as financial assets at fair value through profit or loss. For more details, please refer to “Financial Information – Description of Certain Line Items in the Consolidated Statements of Financial Position – Financial assets at fair value through profit or loss” and “Financial Information – Description of Certain Line Items in the Consolidated Statements of Financial Position – Available-for-sale financial assets”. In addition, we had certain convertible redeemable preferred shares that was recorded as financial liabilities at fair

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value through profit or loss. For more details, please refer to “Financial Information – Description of Key Consolidated Statement of Profit or Loss Line Items – Losses from fair value change of convertible redeemable preferred shares.”

We make estimates and assumptions when using various valuation methodologies for these financial assets and liabilities. The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. We use our judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. For discussions of assumptions and other information regarding our valuation methodologies, see “Appendix I – Financial Risk Management”. The valuation methodologies may involve a significant degree of management judgment and are inherently uncertain, and may result in material adjustment to the carrying amounts of certain assets and liabilities, which in turn may materially and adversely affect our results of operations.

We may be unable to obtain, retain or renew required permits, licenses, registrations or certificates for our business operations.

We are required to maintain certain permits, licenses, registrations and certificates issued by relevant government agencies in jurisdictions in which we operate. For our sales or export to the United States, European Union, Brazil and the Gulf Region, we are required to maintain certain business and operating licenses and permits, and are subject to applicable regulations and laws of those jurisdictions. For further details, please refer to section headed “Regulatory Overview” in this prospectus. We may not be able to secure such licenses, or any other licenses, registrations and permits in other jurisdictions in a timely manner or at all, could result in operational delays or suspensions and/or administrative fines and penalties. Furthermore, we cannot assure you that such permits, licenses, registrations or certificates will not be revoked for whatever reason by the relevant authorities in the future. Any such adverse development could materially and adversely affect our business, financial condition and results of operations.

We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities.

We are subject to various environmental, occupational health and safety laws and regulations governing, among other things, the generation, storage, handling, use, transportation, presence of or exposure to hazardous materials; the emission and discharge of hazardous materials into the ground, air or water, the use of certain chemical auxiliaries, and the health and safety of our employees. We generate pollutants such as waste water, waste gas and hazardous wastes in the production process, the discharged pollutants and disposal methods are currently in compliance with national discharge standards or disposal requirements. However, over time, national and local standards for, amongst others, the discharge of pollutants in wastewater and in exhaust gas may become more stringent, therefore we need to increase part of the investment to install and run treatment facilities or dispose of hazardous wastes. We cannot assure you this would not adversely affect us.

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Certain environmental laws impose liability, sometimes regardless of fault, for requiring to pay taxes for the conduct of directly discharge pollutants to the environment, and investigating or cleaning up contamination on or emanating from our currently or formerly owned, leased or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to third-party disposal or treatment facilities when such facilities are found to be contaminated. Our costs or liabilities relating to these matters may be more than the amount we have reserved and the difference may be material.

We may lose or fail to attract and retain management personnel, engineers and other employees with the required expertise and skills.

Our continued success depends on our ability to attract and retain a competent management team, engineers and other employees with required expertise and skills. Our ability to do so is influenced by a variety of factors, including the structure of the compensation package and the competitive market position of our overall compensation package. Our management team and skilled employees may leave us or we may terminate their employment out of various finds of consideration at any time. We cannot assure you that we will be able to retain our management team and skilled employees or find suitable or comparable replacements on a timely basis or at all. Moreover, if any of our management team or skilled employees leaves us or joins a competitor, we may lose customers, suppliers and know-how. In addition, former employees may request certain compensation arising from their resignation or retirement, which we typically negotiate on a case-by-case basis. However, if we are unable to reach a mutually acceptable resolution with such employees, they may take other actions including, but not limited to, initiating legal proceedings. Such legal proceedings may require us to pay damages, cause us to incur costs and harm our reputation. Each of these foregoing factors could have some adverse effect on our business, financial condition and results of operations.

Product recalls by Private Label customers or vehicle manufacturer customers could negatively affect their production levels and therefore have an adverse effect on our business, financial condition and results of operations.

Recalls by Private Label customers or vehicle manufacturer customers may result in decreased production levels due to: (i) customers focusing its efforts on addressing the problems underlying the recall, as opposed to generating new sales volume; and (ii) end consumers electing not to purchase tires from our Private Label customers, or purchase vehicles from vehicles manufactured by the vehicle manufacturer initiating the recall while such recalls persist. Any reductions in their production volumes, could have a adverse effect on our business, financial condition and results of operations.

In March 2016, Cooper recalled less than 600 units of our products due to potential minor air leakage and as a result, we incurred settlement cost of approximately USD70,000 which was paid in full in 2016. For further details, please refer to section headed “Business – Sales and Customers – Warranty”. Any negative publicity arising from a recall could adversely affect our reputation, brand or our relationship with customers. Please also refer to subsection headed “–

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Our failure to develop, maintain and enhance our brand and reputation may materially adversely affect the level of market recognition and demand of our products.” As we become more integrally involved in the vehicle design process with our vehicle manufacturer customers, such customers may look to their suppliers for contribution when faced with recalls. Accordingly, any recall claim brought against our customers or us could have an adverse effect on our business, financial condition and results of operations.

We may not exercise our call option or our right of first refusal to purchase the Malaysia Production Base from Chengshan Group pursuant to the Deed of Non-Competition.

Pursuant to the Deed of Non-Competition to be entered into between us and the Chengshan Group, we hold a call option and a right of first refusal to acquire the equity interest in Chengshan (Malaysia). Please refer to “Relationship with Controlling Shareholders – Deed of Non-Competition” for further details. We shall only exercise such right after there is no legal impediment for Chengshan (Malaysia) to obtain the legal title to the parcels of land on which the Malaysia Production Base is located and there are no further legal impediments to the operation of the Malaysia Production Base. However, as there is no assurance that such legal title to the land would be granted nor that there would be no legal impediments to the operation of the Malaysian operation, we may not exercise our rights.

We face risks associated with our global operations.

We sell our products to customers and purchase raw materials and other supplies from suppliers located in many different countries around the world. Our international operations are subject to certain inherent risks, including but not limited to: (i) exposure to local economic, political and labor conditions; (ii) changes in laws, regulations, trade or monetary or fiscal policy; (iii) expropriation and nationalization; (iv) difficulty of enforcing agreements, collecting receivables and protecting assets; (v) limitations on repatriation of earnings, including withholding and other taxes on remittances and other payments by subsidiaries; (vi) investment restrictions or requirements; and (vii) violence and civil unrest. Due to the global nature of our business, we may be required to allocate appropriate staffing to monitor our ongoing compliance matters.

We depend on information technology to conduct our business. Any significant disruption could affect our business.

Our ability to keep our business operating effectively depends on the functional and efficient operation of information technology and telecommunication systems. We rely on these systems to make a variety of day-to-day business decisions as well as to track transactions, billings, payments and inventory. Our systems, as well as those of our customers, suppliers, partners, and service providers, are susceptible to interruptions (including those caused by systems failures, malicious computer software (viruses and other malware) and other natural or man-made incidents or disasters), which may be prolonged. We are also susceptible to security breaches that may go undetected. A significant or large-scale interruption of our information technology could materially and adversely affect our ability to manage and keep our operations running smoothly. An incident that results in a wider or sustained disruption to our business could have a material adverse effect on our business, financial condition and results of operations.

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We are involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse effect on our business, financial condition and results of operations.

We are involved in legal proceedings and commercial or contractual disputes that may, from time to time, be significant. For further details, please refer to section headed “Business – Regulatory Compliance and Legal Proceedings” in this prospectus. These are typically claims that arise in the ordinary course of business, including, without limitation, commercial or contractual disputes, including warranty claims and other disputes with customers and suppliers; intellectual property matters; personal injury claims; environmental issues; tax matters; and employment matters. We cannot assure you that such proceedings and claims will not have an adverse effect on our business, financial condition and results of operations. As of the Latest Practicable Date, we are not involved in any material commercial or contractual disputes.

Our intellectual property portfolio exposes us to certain risks, which could have a material adverse effect on our business, financial condition and results of operations.

We own intellectual property, including patents, trademarks and domain names. In addition, we rely on unpatented proprietary technology. Our intellectual property and unpatented proprietary technology play an important role in maintaining our competitive position. Our competitors may develop technologies that are similar or superior to our proprietary technologies or design around the patents that we own or license. Further, as we expand our operations in jurisdictions where the protection of intellectual property rights is less robust, the risk of others duplicating our proprietary technologies increases, despite efforts that we undertake to protect them. In addition, on occasion, third parties may assert claims against us and our customers, alleging that our products or technology infringe upon third-party intellectual property rights. Similarly, we may assert claims against third parties who are taking actions that we believe are infringing on our intellectual property rights. These claims, regardless of their merit or resolution, are typically costly to prosecute, defend or settle and divert the efforts and attention of our management and employees. In addition, such claims could harm our relationships with our customers or suppliers and might deter future customers or suppliers from cooperating with us. If any such claim were to result in an adverse outcome, we could be required to take actions that may include ceasing the manufacture, use or sale of the infringing products and paying substantial damages to third parties to compensate them for their loss or replacing infringing technology with non-infringing technology. Any of the foregoing results could have an adverse effect on our business, financial condition and results of operations.

Moreover, we distribute our products under our medium to premium brand “Prinx” and well-established brands “Chengshan”, “Austone” and “Fortune” brands. While we have registered the trademarks of “Prinx”, “Chengshan”, “Austone” and “Fortune” brands in certain countries around the world and applied for registration of such trademarks in certain jurisdictions, we cannot assure you that our applications will be granted. Third parties may from time to time in the future oppose, our trademark applications, seek to cancel our

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registered trademarks, or otherwise challenge our use of the trademarks. In the event that our trademark applications and/or registrations are successfully challenged, we could be forced to rebrand our products and services, which could result in loss of brand recognition, require us to devote resources to advertising and marketing a new brand, harm our reputation and have a material adverse effect on our business, financial condition and results of operations.

We rely on third-party transportation service providers to deliver our products.

We rely on third-party logistics service providers (including international shipping companies) to deliver products from our production facilities to ports or customers. Many factors beyond our control (including natural disasters and extreme weather, strikes, traffic accidents and road maintenance works) may result in delayed delivery. If our products are not delivered on time or damaged or lost during transit, we may breach the sales agreement with our customers and shall compensate them accordingly. More importantly, it may adversely affect our reputation and further lead to the loss of customers and market share, which may adversely affect our operation results.

The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, financial condition and results of operations.

Pursuant to the EIT Law, with respect to a high and new technology enterprise, the tax levied on its income will be at a rate of 15% after obtaining the High-tech Certificate and completing the filing with the competent tax authorities. Prinx (Shandong) Tire was certified by the PRC government authorities as a High and New Technology Enterprise, and therefore enjoyed preferential enterprise income tax rates of 15% since 2014. The tax benefit we received due to Prinx (Shandong) Tire's High-tech Certificate was RMB32.4 million, RMB41.3 million, RMB25.9 million and RMB12.3 million in 2015, 2016, 2017 and the three months ended March 31 2018, respectively, representing 10.9%, 11.9%, 12.3% and 9.8% of our profit before income tax during the same periods. The competent government authority recently granted, Prinx (Shandong) Tire the updated certificate as a High and New Technology Enterprise through the fiscal year of 2019. In order to maintain this status as a high technology enterprise, in the future we will need to continue to file an application with the competent authorities for their review and determination of our relevant subsidiary as high and new technology enterprises within three months prior to the expiration of the applicable High-tech Certificate. After passing the review, the relevant subsidiary will still be required to complete the tax reduction and exemption filing with the competent tax authorities to continue to have a preferential tax rate of 15%. Also during validity term of High-tech certificate, we are still subject to yearly qualification review. We cannot assure you that we will be able to pass all reviews in the future and to complete the tax reduction and exemption filing with the competent tax authorities in order to maintain the preferential tax rate. We also cannot assure you that the preferential tax rate treatment for high technology enterprises under PRC law will not change or be discontinued in the future.

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During the Track Record Period, we enjoyed “exempt, credit and withdrawal” tax treatment from the PRC tax authority. Such tax rebate comprises of refund of value-added tax (the “VAT”) incurred on raw materials used for our production in the PRC, which products were subsequently exported to overseas countries. For the Track Record Period, such rebate was approximately 9.0%. There is no assurance that PRC governmental policies on tax rebate will remain unchanged or that the current policies we benefit from will not be cancelled, suspended or amended in the future. Tax rebate is a crucial part of exporters’ profit. Expiration or termination of, or other adverse changes to, together with uncertainty resulting from, any of these tax rebate policies could adversely affect our business, financial condition and results of operations.

Discrepancy in contributions to various employee benefit plan as required by PRC regulations may subject us to penalties.

Pursuant to PRC laws and regulations, we are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and the housing provident fund, and contribute to these plans and funds at the level specified by the relevant local government authorities from time to time at locations where we operate. During the Track Record Period, we made contribution based on the higher of the minimum base required by the local government authorities or the base salaries of the employees, which resulted in a discrepancy between the amount of contribution we made and the amount as required by the relevant PRC regulations.

We have made provisions for the discrepancy as payroll and employee benefit payables of approximately RMB29.8 million, RMB29.1 million, RMB29.5 million and RMB31.8 million in 2015, 2016, 2017 and the three months ended March 31, 2018 respectively. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim from our current and former employees regarding the discrepancy in our payment. However, we cannot assure you that the relevant local government authorities will not require us to pay the discrepancy within a prescribed time or impose late fees or fines on us, which may adversely affect our business, financial condition and results of operations.

Extraordinary events such as outbreaks of health pandemics, natural disasters, political unrest and terrorist attacks could adversely affect our production and the timely delivery of our products.

Our operations are vulnerable to interruption and damage from natural and other types of catastrophes, including earthquakes, tsunami, fire, floods, hail, windstorms, severe winter weather (including snow and freezing water), health pandemics, explosions, terrorist attacks, and similar events. Due to their nature, we cannot predict the incidence, timing and severity of such extraordinary events. If any such extraordinary event were to occur in the future which cannot be sufficiently covered by the related insurance we purchased, our ability to operate our business could be seriously impaired. Such events could make it difficult or impossible for us to deliver our products to our customers on time and could decrease demand for our products.

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Since 2003, there have been several outbreaks of avian influenza, or the bird flu, beginning in the PRC and, eventually, spreading to certain parts of Africa and Europe. In 2013, there was outbreak in the PRC of the H7N9 virus. Any occurrence of these pandemic diseases or other adverse public health developments could severely disrupt our staffing and otherwise reduce the activity levels of our work force, causing an adverse effect on our business operations.

Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of our other Shareholders.

Immediately after the Global Offering, our Controlling Shareholders will beneficially own 68.76% of our Shares, or approximately 66.63% if the Over-allotment Option is exercised in full. As a result, by virtue of their controlling ownership of our share capital, our Controlling Shareholders will be able to exert significant influence over our business and otherwise on matters of significance to us and our other Shareholders by voting at the general meetings of Shareholders, such as election of Directors, amount and timing of dividend payments and other distributions, the acquisition of or merger with another entity, overall strategic and investment decisions, issuance of securities and adjustment to our capital structure, and amendments to our Articles of Association. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders, and they are free to exercise their votes according to their own interests. Our Controlling Shareholders will have the power to prevent or cause a change in control of us. Without the consent of our Controlling Shareholders, we may be prevented from entering into transactions that could be beneficial to us and our other Shareholders.

There is seasonable fluctuation in our sales and hence our operation results between an interim periods may not indicate our performance for the entire calendar year.

Our business is seasonal. Sales of our All Steel Radial Tires are generally affected by the climate condition, such as rainy season, and our Semi-Steel Radial Tires business is generally slower in the fourth quarter. While sales of our Bias Tires, which are primarily applied to agricultural vehicles, correlates with the farming seasons. Please see “Business – Seasonality” for further details. As such, our operation results for the peak seasons of each calendar year or between any interim periods may not indicate our performance for the entire calendar year. Prospective investors should be aware of these seasonal fluctuation when making any comparison of our operation results.

RISKS RELATING TO DOING BUSINESS IN THE PRC

China’s economic, political and social conditions, government policies, as well as the global economy may continue to affect our business.

Most of our assets are located in China, and we derive a significant majority of our revenue from our operations in China. Accordingly, our results of operations, financial condition and prospects are subject to economic, political and legal developments in China. China’s economy differs from the economies of developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China’s economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and

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economic sectors and there is no assurance that such growth can be sustained. Since the second half of 2008, the global economic slowdown, continued weakness in the United States economy and the sovereign debt crisis in Europe have collectively added downward pressure to China's economic growth. China's real GDP growth rate declined from 6.9% in 2015 to 6.7% in 2016 and increased to 6.9% in 2017. If the business environment in China deteriorates as a result of the slowdown in China's economic growth, our business in China may be materially adversely affected.

Uncertainties with respect to China's legal system could materially adversely affect us.

PRC laws and regulations govern our operations in China. We and most of our operating subsidiaries are organized under PRC laws. China's legal system is based on written statutes. Prior court decisions may be cited for reference by judges out of discretionary consideration under certain circumstances but have limited precedential value. The PRC government has promulgated laws and regulations over the past 20 years regarding matters such as corporate organization and governance, issuance and trading of securities, shareholders' rights, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new and are subject to different interpretations and applicability and may be inconsistently implemented and enforced. In addition, only a limited volume of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to us, and can adversely affect us.

Government control of currency conversion and fluctuations in the exchange rates of the Renminbi may materially and adversely affect our business, financial condition and results of operations and our ability to remit dividends.

A majority of our operating costs and part of our revenue we receive are denominated in Renminbi. The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditure from trade-related transactions, can be made in foreign currencies without prior approval from SAFE but comply with certain procedural requirements, including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within the PRC that have licenses to carry out foreign exchange business. However, approval, registration or filing from SAFE and other appropriate government authorities, and/or banks is required for foreign currency conversions for payment under capital account items such as equity investments and repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict our access in the future to foreign currencies for current account transactions. To the extent that we are unable to convert our revenue into Renminbi or remit our revenue into the PRC, our business, financial condition and results of operations would be materially and adversely affected.

The exchange rates of the Renminbi against foreign currencies, including the U.S. dollar, are affected by factors including changes in the PRC's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including the U.S. dollar, has been

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based on rates set based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. We had net other foreign exchange gains of RMB21.2 million and RMB8.3 million for the years ended December 31, 2015 and 2016, respectively and incurred other foreign exchange loss of RMB27.3 million and RMB22.8 million for the year ended December 31, 2017, and the three months ended March 31, 2018, respectively. In addition, we had RMB70.7 million, RMB19.0 million and RMB0.8 million loss in 2015, 2016 and the three months ended March 31, 2018 and RMB21.3 million income in 2017 due to currency translation differences. There can be no assurance that the PRC government will not in the future make further adjustments to the exchange rate system. Any fluctuation in exchange rates of the Renminbi against the U.S. dollar, Euro or other foreign currencies may cause our costs for importing raw materials, machinery and equipment and our operating costs to be volatile. In addition, to the extent that we need to convert our revenue from U.S. dollars into Renminbi to pay our operating costs, appreciation of the Renminbi against the U.S. dollar would change our revenue in U.S. dollar terms and decrease assets. Unfavorable change in exchange rate may have adverse effects on our business, financial condition and results of operation.

Under the EIT Law and other PRC tax laws, we may be classified as a “resident enterprise,” which could result in unfavorable tax consequences to us and our non-PRC shareholders.

Under the EIT Law, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise,” meaning that it can be treated as a Chinese enterprise for PRC enterprise income tax purposes. The implementation rules of the EIT Law define “de facto management bodies” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. The Notice on Determination of Tax Resident Enterprises of Chinese-controlled Offshore Incorporated Enterprises in Accordance with Their De Facto Management Bodies (關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), issued by the SAT on April 22, 2009, with effect from January 1, 2008. Moreover, whether or not a Chinese-controlled offshore enterprise is an offshore-registered resident enterprise is subject to preliminary review by the local tax bureau where the “de facto management body” of the Chinese-controlled offshore enterprise or its controller is based and is subject to final confirmation by the SAT.

Currently, we are not deemed to be “resident enterprise” for PRC enterprise income tax purposes, but it is possible that the PRC tax authorities will determine that our Company is a “resident enterprise” for PRC enterprise income tax purposes in the future. If and when we are determined to be a “resident enterprise,” we would be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. By comparison, there is no taxation on such income in the Cayman Islands. In addition, if we are treated as a PRC “resident enterprise” under PRC law, our foreign corporate

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Shareholders may be subject to PRC income tax on the capital gains realized from the sale of our Shares, and dividends paid to non-PRC residents with respect to our Shares may be subject to PRC withholding tax as such income may be regarded as income from “sources within the PRC.”

In connection, pursuant to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**PRC-HK Tax Arrangement**”) effective on December 8, 2006, the withholding tax rate for dividends paid by a PRC resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the capital of the PRC enterprise; otherwise, the dividend withholding tax rate is 10%. According to the Notice of the PRC State Administration of Taxation on Issues concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated on February 20, 2009, and effective on the same day, the corporate recipient of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. The SAT issued the Notice on How to Understand and Determine the “Beneficial Owners” in Tax Agreements (國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知) on October 27, 2009, and the Measures for the Administration of Non-Resident Taxpayer’s Enjoyment of the Treatment under Tax Agreements (非居民納稅人享受稅收協定待遇管理辦法) on November 1, 2015. Pursuant to these regulations, non-resident taxpayers should judge by themselves whether they are entitled to the treatment of the tax convention, and faithfully declare and submit the relevant report and information to the competent tax authorities or actively propose to the withholding agents and provide relevant report and information to them. However, if a company is deemed to be a pass-through entity rather than a qualified owner of benefits, it cannot enjoy the favorable tax treatments provided in the PRC-HK Tax Arrangement. In addition, if transactions or arrangements are deemed by the relevant tax authorities to be entered into mainly for the purpose of enjoying favorable tax treatments under the PRC-HK Tax Arrangement, such favorable tax treatments may be subject to adjustment by the relevant tax authorities in the future.

The enforcement of the Labor Contract Law and increase in labor costs in the PRC may adversely affect our business and our profitability.

China adopted a new Labor Contract Law and its implementation rules effective on January 1, 2008 and September 18, 2008, respectively. The Labor Contract Law and its implementation rules impose more stringent requirements on employers with regard to, among others, minimum wages, economic compensations and non-fixed term employment contracts, time limits for the probation period as well as the duration and the times that an employee can be placed on a fixed term employment contract. Due to the lack of clarity with respect to the implementation of the Labor Contract Law, its implementation rules and its potential penalties and fines, it is uncertain how they will impact our current employment policies and practices. If our employment policies and practices violate the Labor Contract Law or its implementation rules, we may be subject to related penalties, fines or legal fees. Compliance with the Labor

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Contract Law and its implementation rules may increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may also limit our ability to effect those changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

Payment of dividends is subject to restrictions under PRC law.

We are a holding company incorporated in the Cayman Islands, and we operate our business through our operating subsidiaries in the PRC. We may rely on distributions to us by our PRC subsidiaries for part of our funding, including paying dividends to our Shareholders and to service any debt we may incur. Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make by the PRC law. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in periods in which we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under IFRS, or vice versa. Our funds available for distribution as cash dividend may also be affected by the PRC law requirements on maintaining a general reserve fund by companies and certain individual funds by foreign invested enterprises. Additionally, factors such as, cash flows, restrictions in debt instruments, withholding tax, other arrangements and may restrict our PRC subsidiaries' ability to pay dividends to us and in turn restrict our ability to pay dividends to our Shareholders. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders, including periods in which we are profitable. Distributions by our PRC subsidiaries to us in forms other than dividends may also be subject to government approvals and taxes.

It may be difficult to effect service of process upon, or to enforce judgements against, our Directors or members of our senior management who reside in the PRC in connection with judgments obtained in non-PRC courts.

Seven of our Directors reside within the PRC, and the assets of our Directors and senior management may be located within the PRC. As a result, it may not be possible to effect service of process outside the PRC upon those Directors and senior management members, including for matters arising under applicable securities law. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if

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judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments from various jurisdictions are uncertain.

The PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) which had historically permitted reciprocal enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for mutual enforcement of arbitration awards. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000.

The PRC tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise, which may negatively affect our business and our ability to conduct mergers, acquisitions or other investments and the value of your investment in our Company.

On February 3, 2015, SAT issued the Announcement on Several Issues concerning Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”). This regulation repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises’ Equity Transfer Income (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (“**Circular 698**”) and certain rules clarifying Circular 698. Circular 698 was issued by SAT on December 10, 2009, which was made retrospectively effective from January 1, 2008. Circular 7 provides comprehensive guidelines relating to, and heightens the PRC tax authorities’ scrutiny on, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is considered by the PRC tax authorities to have no reasonable commercial purpose than to evade enterprise income tax, Circular 7 allows the PRC tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10% rate of PRC enterprise income tax. Circular 7 exempts this tax, for examples, (i) where a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company in the public market, and (ii) where a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. It remains unclear whether any exemptions under Circular 7 will be applicable to any future mergers, acquisitions or other investments that we may make outside the PRC involving PRC Taxable Assets or to transfers of our Shares by our Shareholders. If the PRC tax authorities impose PRC enterprise income taxes on these activities, our ability to expand our business or seek financing through these transactions and the value of your investment in our Shares may be materially and adversely affected.

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RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our shares and there can be no assurance that an active market would develop.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations between our Company and the Underwriters and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

The liquidity, trading volume and market price of our Shares following the Global Offering may be volatile.

The price at which our Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

Furthermore, following the Global Offering, the market price and trading volume of the Shares could be subject to significant fluctuations due to various external factors and events as a result of, without limitation, the following factors, some of which are beyond our control:

- the liquidity and depth of the Shares in the market;
- our financial results;
- changes in securities analysts' estimates of our financial performance;
- investors' perceptions of our Group and the general investment environment;
- changes in laws and regulations;
- developments in the tire industry;
- changes in pricing policies adopted by us or our competitors;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- demand and supply of our shares;
- our inability to compete effectively in the market; and
- general political, economic, financial, social development and stock market conditions.

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You will incur immediate and substantial dilution and may experience further dilution in the future.

Based on the Offer Price range, the Offer Price of our Shares is expected to be higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible book value per Share. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering mainly for expanding our manufacturing plants, premises and facilities in the PRC and overseas acquisition and investment. See “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for more information. However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from the Global Offering.

Prior dividend distributions, if any, are not an indication of our future dividend policy.

For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, our Group declared dividends of RMB485.0 million, RMB27.5 million, RMB90.2 million and RMB83.1 million, respectively, to its equity shareholders, which were paid in full. Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant.

Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and the PRC laws, including (where required) the approvals from our shareholders and our Directors. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries. As a result of the above, we cannot assure you that we will make any dividend payments on our Shares in the future with reference to our historical dividends. For further details of the dividend policy of our Company, see the section headed “Financial Information – Dividend Policy” in this prospectus.

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There will be a time gap of several business days between pricing and trading of our Shares offered under the Global Offering. The market price of the Shares after trading begins could be lower than the Offer Price.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five business days in Hong Kong after the pricing date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall when trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of pricing and the time of trading begins.

Sale, or perceived sale, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.

We cannot assure you that our Controlling Shareholders will not dispose of any Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

The availability of Shares for sale in the future could reduce the market price of our Shares.

In the future, we may issue additional securities to raise capital. We may also acquire interests in other companies by using a combination of cash and our Shares or just our Shares. We may also issue securities convertible into our Shares. Any of these events may dilute your ownership interest in our Company and have an adverse effect on the price of our Shares. In addition, sales of a substantial amount of our Shares in the public market, or the perception that these sales may occur, could reduce the market price of our shares. This could also impair our ability to raise additional capital through the sale of our securities.

The ability of shareholders to bring actions or enforce judgments against us or our Directors may be limited.

We are incorporated under the laws of the Cayman Islands. As a result, a shareholder may not be able to enforce a judgment against us or some or all of the Directors and executive officers outside the Cayman Islands. It may not be possible for a shareholder to effect service of process upon the Directors and executive officers within the shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that a shareholder will be able to enforce any judgments in civil and commercial matters against the Directors or executive officers who are residents of countries other than those in which judgment is made.

RISK FACTORS

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and, under Cayman Islands law, protection to minority shareholders may differ from those established under the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Memorandum of Association and the Articles and by the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority shareholders may be different from those which they would have under the laws of Hong Kong or other jurisdictions. See “Appendix III – Summary of the Constitution of the Company and Cayman Islands Companies Law.”

This prospectus contains certain hypothetical information based on changes relative to historical events and related analysis based on it, and you should not place undue reliance on such information or analysis.

This prospectus contains certain hypothetical information and analysis based on it, which includes the use of certain accompanying assumptions, in particular in respect of historical prices of natural rubber. Our Company cannot offer assurances that the assumptions would have been true under the hypotheses presented or that the results of these hypothetical changes would have matched the results presented. For details, please refer to the sections headed “Financial Information – Key Factors Affecting Our Results of Operations – Fluctuation of Raw Material Cost”; “Financial Information – Description of Key Consolidated Statement of Profit of Loss Line Items – Revenue” and “Financial Information – Description of Key Consolidated Statement of Profit of Loss Line Items – Cost of Sales” in this prospectus. Given the hypothetical nature of this information and the uncertainty of the assumptions made, the results that would have resulted under these hypotheses might not have occurred in the way we had expected. Accordingly, you should not place undue reliance on the hypothetical information and related analysis included in this prospectus.

There can be no assurance on the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third party sources, including the industry expert report, contained in this prospectus.

Certain facts, forecasts and other statistics relating to the PRC and other countries and regions and the tire markets in the PRC and other countries and regions contained in this prospectus have been derived from various government publications, market data providers and other independent third party sources, including Frost & Sullivan, an independent industry expert, and generally are believed to be reliable. However, we cannot guarantee the accuracy and completeness of such information. These facts, forecasts and other statistics have not been independently verified by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors and advisors or any other parties involved in the Global Offering and none of them make any

RISK FACTORS

representation as to the accuracy or completeness of such information. Furthermore, such facts, forecasts and other statistics may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside the PRC. For these reasons, you should not place undue reliance on such information as a basis for making your investment in our Shares.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Given that substantially all of our principal business and operations of our Group are located, managed and conducted in the PRC, only one of our executive Directors is ordinarily resident in Hong Kong. We consider that it would be practically difficult and commercially unnecessary to either relocate our executive Directors who are based in the PRC to Hong Kong or to appoint an additional executive Director who is ordinarily resident in Hong Kong. Our Company does not and will not, in the foreseeable future, have a management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

Accordingly, our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules, subject to the condition that our Company would adopt the following arrangements to maintain regular communication with the Hong Kong Stock Exchange:

- (a) our Company has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives appointed are Cao Xueyu and Shi Futao. Each of the authorized representatives will be available to meet with the Hong Kong Stock Exchange in Hong Kong upon reasonable request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile or email. Each of the two authorized representatives is authorized to communicate on behalf of our Company with the Hong Kong Stock Exchange;
- (b) both of the authorized representatives will have means to contact all members of the Board (including our independent non-executive Directors) and the senior management team promptly at all times as and when the Hong Kong Stock Exchange wishes to contact them or any of them for any matters;
- (c) all Directors and authorized representatives have provided their mobile phone numbers, office phone numbers, residential phone numbers, facsimile numbers and email addresses (where applicable) to the Hong Kong Stock Exchange;
- (d) if the circumstances require, meetings of the Board can be convened and held in such manner as permitted under the Articles of Association at short notice to discuss and address any issue with which the Hong Kong Stock Exchange is concerned in a timely manner;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) a compliance advisor has been appointed by our Company to provide our Company with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorized representatives of our Company, as our Company's principal channel of communication with the Hong Kong Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company publishes its annual report in respect of its first full financial year commencing after the Listing Date pursuant to Rule 3A.19 of the Listing Rules;
- (f) meetings between the Hong Kong Stock Exchange and our Directors can be arranged through the authorized representatives or the compliance advisor, or directly with our Directors within a reasonable time frame. our Company will inform the Hong Kong Stock Exchange promptly of any change in the authorized representatives or the compliance advisor; and
- (g) all our Directors have confirmed that they possess valid travel documents to travel freely to Hong Kong and would be able to come to Hong Kong and meet with the Hong Kong Stock Exchange upon reasonable notice.

As at the Latest Practicable Date, our Company has put in place the above-mentioned measures.

WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

Our Group has certain transactions with connected persons that are expected to continue after Listing, which will constitute partially-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. We expect these partially-exempt continuing connected transactions to be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance with the applicable requirement under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company.

Accordingly, pursuant to Rule 14A.105 of the Listing Rules, our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement requirements in respect of such partially-exempt continuing connected transactions under Chapter 14A of the Listing Rules. For further details regarding such waiver, please refer to the section headed "Continuing Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Our Directors confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or Application Forms may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

The Listing is sponsored by the Sole Sponsor. We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Save as disclosed in this prospectus, no part of our Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Tuesday, October 9, 2018. The Shares will be traded in board lots of 500 Shares each. The stock code of the Shares will be 1809.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our Principal Share Registrar, Estera Trust (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars and of Hong Kong dollars into U.S. dollars at specified rates.

Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rate:

RMB0.8706 to HK\$1.00

HK\$7.8488 to US\$1.00

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
CHE Baozhen (車寶臻)	Room 1501, Building A No. 88, Nanshan North Road Rongcheng City Shandong Province China	Chinese
SHI Futao (石富濤)	Room 1003, No. 22 Lane 666 Taierzhuang Road Pudong New Area Shanghai China	Chinese
CAO Xueyu (曹雪玉)	Flat F, 30/F, Block 12 Yee Moon Court, South Horizons 12 South Horizons Drive Hong Kong	Chinese
<i>Non-executive Directors</i>		
CHE Hongzhi (車宏志)	No. 98, Nanshan North Road Rongcheng City Shandong Province China	Chinese
WANG Lei (王雷)	No. 98, Nanshan North Road Rongcheng City Shandong Province China	Chinese
CHEN Yansheng (陳延生)	No. 503, Unit 1, Building 6 Area 2, Wuyingshanxincun Tianqiao District Jinan City Shandong Province China	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Independent Non-executive Directors

ZHANG Xuehuo (張學伙)	No. 1 Shunxinghu North Street Guangyang District Langfang City Hebei Province China	Chinese
CHOI Tze Kit Sammy (蔡子傑)	Flat A, 7/F Floor, Block 3 Villa Carlton 369 Tai Po Road Sham Shui Po, Kowloon Hong Kong	Chinese
WANG Chuansheng (汪傳生)	Flat 502, Unit 2 No. 39 Hongdao Road Shinan District Qingdao City Shandong Province China	Chinese

For further details regarding our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

Sole Sponsor

BOCI Asia Limited

26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Sole Global Coordinator

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Joint Bookrunners

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Essence International Securities (Hong Kong) Limited

39/F, One Exchange Square
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Essence International Securities (Hong Kong) Limited

39/F, One Exchange Square
Central
Hong Kong

Ever-Long Securities Company Limited

18/F Dah Sing Life Building
99-105 Des Voeux Road Central
Hong Kong

Freeman Securities Limited

38/F, BOC Tower
1 Garden Road, Central
Hong Kong

Co-lead Manager

Quasar Securities Co., Limited

Unit A 12/F Harbour Commercial Building
122-124 Connaught Road, Central
Hong Kong

Reporting accountant

PricewaterhouseCoopers

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

Legal advisors to our Company

As to Hong Kong law:

King & Wood Mallesons

13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law:

King & Wood Mallesons
40th Floor, Tower A
Beijing Fortune Plaza
7 Dongsanhuan Zhonglu
Chaoyang District
Beijing
China

As to Cayman Islands laws:

Ogier
11th Floor, Central Tower
28 Queen's Road Central
Hong Kong

As to International Sanctions laws:

Hogan Lovells
11th Floor, One Pacific Place
88 Queensway
Hong Kong

As to Malaysian laws:

Ben & Partners
7-2, Level 2, Block D2
Dataran Prima
Jalan PJU 1/39
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

**Legal advisors to the Sole Sponsor and
the Underwriters**

As to Hong Kong laws:

Morrison & Foerster
33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

Jingtian & Gongcheng
45/F, K. Wah Centre
1010 Huaihai Road (M)
Xuhui District
Shanghai 200031
China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Industry consultant

Frost & Sullivan
1018, Tower B
No. 500 Yunjin Road,
Xuhui District
Shanghai, 200232
China

Receiving bank

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central
Hong Kong

CORPORATE INFORMATION

Registered office	P.O. Box 472 Harbour Place, 2nd Floor 103 South Church Street George Town Grand Cayman KY1-1106 Cayman Islands
Headquarter and principal place of business in Hong Kong	Room 803B, 8/F East Ocean Centre 98 Granville Road Tsim Sha Tsui Kowloon Hong Kong
Company website	<u>www.prinxchengshan.com</u> <i>(Note: information on this website does not form part of this prospectus)</i>
Company secretary	Lam Yuk Ling (林玉玲) 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong <i>(a member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the UK)</i>
Authorized representatives	Cao Xueyu (曹雪玉) Flat F, 30/F, Block 12 Yee Moon Court, South Horizons 12 South Horizons Drive Hong Kong Shi Futao (石富濤) Room 1003, No. 22 Lane 666 Taierzhuang Road Pudong New Area Shanghai China
Audit Committee	Choi Tze Kit Sammy (蔡子傑) (<i>Chairman</i>) Wang Chuansheng (汪傳生) Zhang Xuehou (張學伙)

CORPORATE INFORMATION

Nomination and Remuneration Committee	Zhang Xuehuo (張學伙) (<i>Chairman</i>) Che Baozhen (車寶臻) Choi Tze Kit Sammy (蔡子傑)
Development Strategy and Risk Management Committee	Che Hongzhi (車宏志) (<i>Chairman</i>) Wang Chuansheng (汪傳生) Zhang Xuehuo (張學伙)
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Share Registrar	Estera Trust (Cayman) Limited Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Compliance advisor	Messis Capital Limited Room 1606, 16/F, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong
Principal banks	<i>In the PRC</i> Bank of China Rongcheng Branch No. 16 Wenhudong Road Rongcheng City Shandong Province PRC Agricultural Bank of China Rongcheng Branch No. 119 Wenhudong Road Rongcheng City Shandong Province PRC

CORPORATE INFORMATION

Industrial and Commercial Bank of China
Rongcheng Branch
No. 126 Wenhudong Road
Rongcheng City
Shandong Province
PRC

China Construction Bank Rongcheng Branch
No. 100 Chengshan Dadaodong Section
Rongcheng City
Shandong Province
PRC

In Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central, Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
HSBC Main Building
1 Queen's Road Central
Central, Hong Kong

INDUSTRY OVERVIEW

The information presented in this section is derived from the Frost & Sullivan Report, as well as various official or publicly available publications. The information derived from the Frost & Sullivan Report reflects estimates of the market conditions based on information from various sources. See “– Source of Information.” We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the Frost & Sullivan Report which may qualify, contradict or adversely impact the quality of the information in this section. We, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or their respective affiliates or advisors or any other party involved in the Global Offering have not independently verified, and make no representation as to, the accuracy of the information from official government or other third party sources. Such information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside the PRC. Accordingly, the official government and other third party sources contained herein may not be accurate and should not be unduly relied upon.

OVERVIEW OF GLOBAL AND CHINA AUTOMOBILE INDUSTRY

The global production volume of automobile grew from 84.2 million in 2012 to 97.3 million in 2017 at a CAGR of 2.9%, among which passenger vehicles grew from 63.1 million in 2012 to 73.5 million in 2017 at a CAGR of 3.1% and commercial vehicles grew from 21.2 million in 2012 to 23.8 million in 2017 at a CAGR of 2.3%. In the next five years, the global production volume of automobile is expected to reach 108.5 million till 2022 representing a CAGR of 2.2%, among which passenger vehicles and commercial vehicles are respectively estimated to reach 82.6 million at a CAGR of 2.4% and 25.9 million at a CAGR of 1.7% till 2022 during the same period.

Mainly driven by the increasing sales volume of automotive vehicles especially in emerging markets, global volume of passenger vehicles in use grew from 834.9 million in 2012 to 1,023.3 million in 2017 at a CAGR of 4.2%, and volume of commercial vehicles in use grew from 306.7 million in 2012 to 351.7 million in 2017 at CAGR of 2.8%. In the next five years, the global volume of passenger vehicles in use is expected to grow from 1,023.3 million in 2017 to 1,162.2 million in 2022 at a CAGR of 2.6%, while the global volume of commercial vehicles in use is estimated to grow from 351.7 million in 2017 to 375.9 million in 2022 at a CAGR of 1.3%.

China, Europe and US are the three largest markets in the world representing 29.8%, 22.8% and 11.6% in terms of production volume of automobile or 15.6%, 29.3% and 20.0% in terms of volume of vehicle in use respectively in 2017. China is one of the fastest growing automobile markets in terms of both production volume and the volume of vehicle in use.

INDUSTRY OVERVIEW

Driven by steady economic development, continuous advancement of urbanization and comparatively low automobile penetration compared to developed countries, the production volume of automobile in China grew from 19.3 million in 2012 to 29.0 million in 2017 at a CAGR of 8.5% and is expected to continue growing at a CAGR of 6.5% during 2017 to 2022, reaching 39.7 million in 2022. In line with the stably growing automobile production volume, the volume of vehicle in use in China has soared from 120.0 million in 2012 to 215.0 million in 2017 at a CAGR of 12.4% and is expected to grow to 321.5 million in 2022 at a CAGR of 8.4% during 2017 to 2022.

Key Market Drivers of Global Automobile Industry

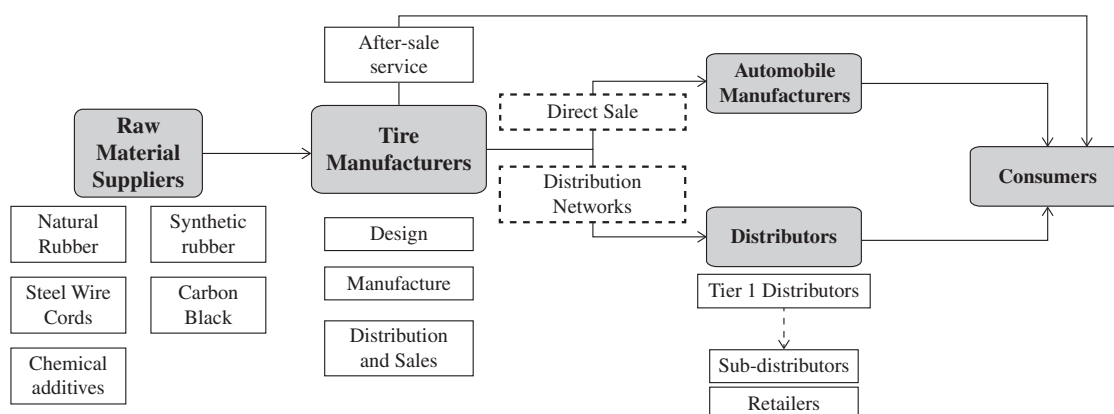
The main drivers of the global and China automobile industry include: (1) national supportive policies promulgated in many countries, especially in Southeast Asia and Central and Eastern Europe, to support domestic automobile manufacturers and attract foreign investment; (2) the implementation of the Belt and Road Initiative resulting in a soaring demand for infrastructure projects and hence increasing commercial vehicle needs; (3) the growing disposable income and urbanization rate in developing countries generating stronger desire for car purchase.

Key Development Trends of Global Automobile Industry

The key development trends of global and China automobile industry include: (1) the growing adoption of autonomous driving worldwide is expected to create an entire new ecosystem which involves automobile manufacturers, automotive parts and electronic component suppliers, software and system design providers, etc.; (2) increasing environmental awareness, stringent emission regulations and technology advancement will jointly drive the development and penetration of new energy vehicles globally and in China; (3) Lightweight materials such as high-strength steel, magnesium (Mg) alloys, aluminium (Al) alloys are expected to replace the traditional materials to reduce vehicle weight and thus to further improve fuel economy; (4) The development of 5G communication technology and automotive semiconductor technology is expected to continue to enhance vehicle connectivity in the future.

OVERVIEW OF GLOBAL AND CHINA AUTOMOTIVE TIRE MARKET

Value Chain of Automotive Tire Market



INDUSTRY OVERVIEW

Tire manufacturers are mainly responsible for the design, production, distribution and sales of automotive tires. Large-scale tire manufacturers usually have their own in-house quality control system with rigorous quality control procedures throughout the whole production process. Tires that meet quality standards and specific performance required by customers are delivered to automobile manufacturers in original equipment market or distributors in replacement market. In original equipment market, competitive price and reliable supply capacity are placed at top priorities. In comparison, a brand recognition, trustable quality, innovation and quick reaction capability, as well as well-developed distribution and sales channel and after-sale service system are crucial for replacement tire suppliers to differentiate themselves from a variety of options.

Classification and Characteristics

According to different construction and materials used, tire products can be divided into All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires. The penetration of radial tires has witnessed a significant increase in recent years as they offer such advantages: (1) reduced rolling resistance; (2) more comfortable riding experience; (3) improved control in cornering and better traction performance. In terms of application, All Steel Radial Tires are mainly applied on heavy vehicles, including medium and heavy trucks, large buses, semi trailers and a part of light trucks. Semi-Steel Radial Tires, with better performance in terms of safety, comforts and braking properties, mainly serve all passenger vehicles and a small proportion (less than 10%) of commercial vehicles including light trucks and mini vans. Bias Tires are more suitable for heavy loading vehicles and used on bad road condition of mine, stone pit and tunnel for agricultural and industrial use.

Global Automotive Tire Industry

Benefit from the expanding automobile production and volume of vehicle in use throughout the world, the global automotive tire industry has witnessed an increase at a CAGR of 3.3% in the past five years, increasing from 2,588.9 million in 2012 to 3,039.0 million in 2017. Driven by the continuous growth of downstream automotive industry, the global automotive tire demand is expected to grow at a CAGR of 2.0% in the forecast period of 2017 to 2022, with the demand from passenger vehicle sector and commercial vehicle sector increasing at a CAGR of 2.5% and 1.5% respectively.

In the past five years, the sales of Semi-Steel Radial Tires rose faster at a CAGR of 3.8% owing to the robust growth of passenger vehicle market, while sales of All Steel Radial Tires and Bias Tires grew at a CAGR of 2.8% and 1.4% respectively during this period. In the forecast period of 2017 to 2022, the sales volume of Semi-Steel Radial Tires is expected to grow at a faster pace, representing a CAGR of 2.4%, while the demand for All Steel Radial Tires and Bias Tires is expected to increase at a CAGR of 1.7% and 0.1% during the same period.

INDUSTRY OVERVIEW

Global Sales Volume of Automobile Tires and Breakdown by Type

Million Units	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	CAGR	CAGR
												2012-2017	2017-2022E
Total	2,588.9	2,678.3	2,778.0	2,854.3	2,945.1	3,039.0	3,123.8	3,197.0	3,257.2	3,307.7	3,348.6	3.3%	2.0%
All Steel Radial Tires	1,204.1	1,240.3	1,286.5	1,312.3	1,341.8	1,383.8	1,420.0	1,449.5	1,472.7	1,490.3	1,502.3	2.8%	1.7%
Semi-Steel Radial Tires	1,271.1	1,325.3	1,372.0	1,421.6	1,481.8	1,533.4	1,581.9	1,625.5	1,662.4	1,695.3	1,724.1	3.8%	2.4%
Bias Tires	113.6	112.6	119.6	120.4	121.5	121.8	121.9	122.0	122.1	122.1	122.2	1.4%	0.1%

Source: The International Organization of Motor Vehicle Manufacturers, Frost & Sullivan

Sales volume, growth rate and market share of main automotive tire markets around the world

Million Units	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	CAGR	CAGR	Share of
												2012-2017	2017-2022E	Global Sales in 2017
European Union	559.8	566.1	576.2	588.8	599.6	611.6	621.4	628.9	635.2	640.9	645.4	1.8%	1.2%	20.1%
China	396.0	442.6	475.7	503.5	561.2	609.0	657.8	706.6	753.9	799.1	841.1	9.0%	6.7%	20.0%
The United States	314.3	327.0	341.2	359.4	375.2	385.1	401.1	417.3	436.1	454.6	471.0	4.1%	4.1%	12.7%
Middle East	347.9	365.7	386.2	414.7	446.3	479.3	513.8	548.2	582.2	614.8	646.8	6.6%	6.2%	15.8%
Africa	158.5	165.8	174.4	184.9	194.9	205.0	215.2	225.1	234.8	244.2	252.8	5.3%	4.3%	6.7%
Thailand	76.8	81.0	80.3	83.0	85.8	89.3	93.1	97.4	102.1	106.8	111.4	3.0%	4.5%	2.9%
Malaysia	64.2	65.8	69.8	73.6	77.2	78.1	80.1	83.5	87.4	91.7	96.1	4.0%	4.2%	2.6%
Pakistan	15.9	17.0	17.5	18.6	19.8	21.3	22.9	24.4	25.9	27.5	28.9	6.0%	6.3%	0.7%

Notes:

- (1) The prosperity of shale oil market and increase in domestic demand for merchandise has stimulated the cargo transportation needs. As a result, the sales volume of All Steel Radial Tires increased at a CAGR of 6.5% during 2012 to 2017 and is expected to grow at a CAGR of 7.3% during the forecast period of 2017 to 2022.
- (2) The implementation of the Belt and Road Initiative has substantially driven the infrastructure construction and relevant industries along the road and consequently, the great growth potential of automobile tire markets in Middle East, Africa and Southeast Asia has been stimulated.
- (3) The comparatively lower plant and labor costs in Thailand and Malaysia have attracted many automotive tire manufacturers to transfer production capacity from their own countries.
- (4) The automotive tire industry in the United States is expected to continue to grow in the foreseeable future, mainly driven by the recovery of automobile industry as part of the recent growth of the overall economy, the growing investment on infrastructure announced by the U.S. government which is expected to drive demand for automotive tires and the large base of vehicle owners who will need replacement tires.

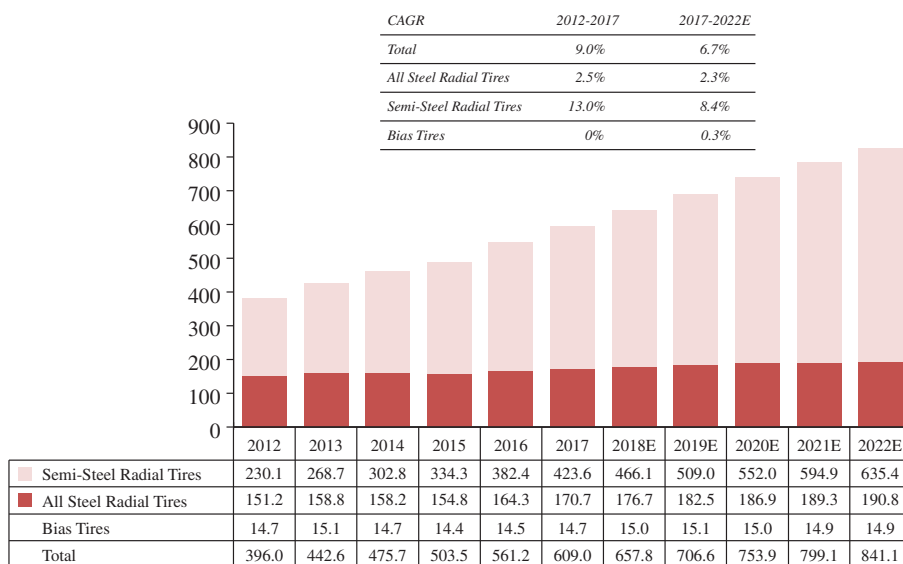
Source: The International Organization of Motor Vehicle Manufacturers, Frost & Sullivan

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China Automotive Tire Industry

Over the past five years, the market size for automotive tires in terms of sales volume in China has witnessed a robust growth at a CAGR of 9.0%, increasing from 396.0 million in 2012 to 609.0 million in 2017. Among them, the sales volume of All Steel Radial Tires, Semi-Steel radial tires and Bias Tires grew at a CAGR of 2.5%, 13.0% and 0% respectively. Going forward, benefiting from the development of downstream automotive industry resulting from the rising income level and expanding consumer demand, the sales volume of Semi-Steel Radial Tires is expected to reach 635.4 million in 2022 at a CAGR of 8.4% during the forecast period. In addition, driven by the development of the China logistics industry underpinned by the prosperity of E-Commerce sector, the demand for commercial vehicles is expected to undergo growing trend in the future, further boosting the All Steel Radial Tire market. The sales volume of All Steel Radial Tire is projected to reach 190.8 million in 2022, representing a CAGR of 2.3% during the period of 2017 to 2022. With the increasing safety awareness and expanding demand for tire products with higher quality and better properties, the sales volume of Bias Tires was adversely affected and is expected to continue to decline in the near future.

Sales volume of China automotive tire industry and breakdown by tire type



Source: China Association of Automobile Manufacturers, Frost & Sullivan

China Domestic Brand Tire Industry

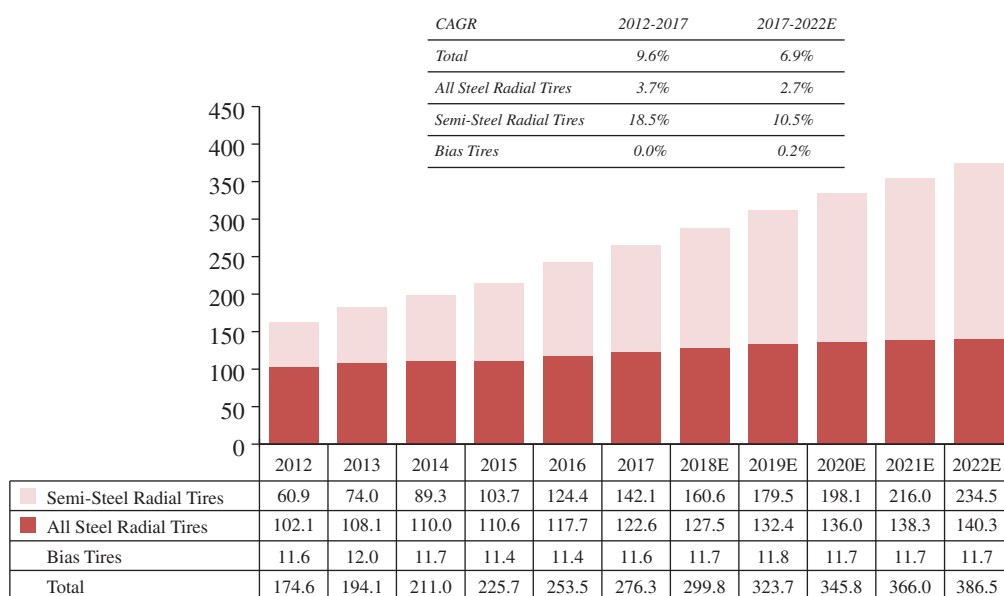
In order to grab more market share and better respond to competition from foreign tire brands such as Michelin, Bridgestone, Goodyear, etc., domestic brands have made great investment in enhancing product quality and building trustable brand images. In the past five years, domestic brand tires have demonstrated an all-round advancement in terms of product quality, brand recognition, production efficiency and service quality. As a result, the sales volume of domestic brand tires has experienced an overall growth at a CAGR of 9.6%, rising from 174.6 million in 2012 to 276.3 million in 2017. Leveraging years' of development and accumulated expertise in All Steel Radial Tire market, domestic brands has occupied a

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significant proportion (71.8% in 2017) of total All Steel Radial Tires in China. The domestic brand All Steel Radial Tires grew at a CAGR of 3.7% from 102.1 million in 2012 to 122.6 million in 2017. However, domestic brands are confronting much intensive competition as foreign brands have occupied the dominant position in Semi-Steel Radial Tire market in China for a long time. The market share of domestic brand Semi-Steel Radial Tires was 33.5% in 2017, which demonstrates broad market space for domestic brands. The domestic brand Semi-Steel Radial Tires grew at a CAGR of 18.5% and reached to 142.1 million in 2017. The domestic brand Bias Tires remained unchanged due to the advancement of decapacity and wide-adoption of radial tires.

Going forward, the domestic brands are expected to release strong growth potential, with All Steel Radial Tires, Semi-Steel Radial Tires increasing at a CAGR of 2.7%, 10.5% respectively during the forecast period.

Sales volume of China domestic brand tires and breakdown by tire type

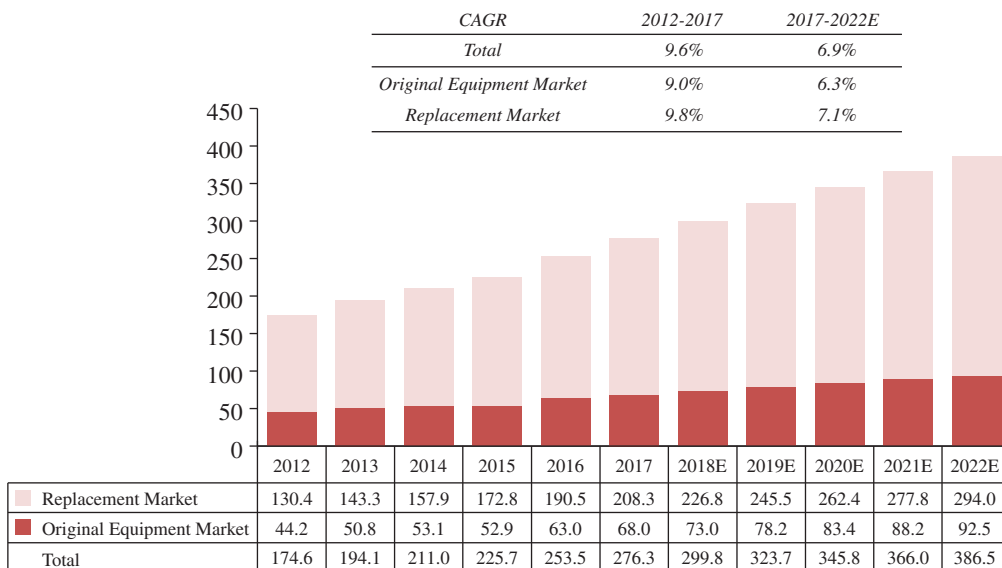


Source: China Association of Automobile Manufacturers, Frost & Sullivan

Owing to the improving product quality and active expansion strategy, the proportions of domestic brand tires in both original and replacement market in terms of sales volume have witnessed gradual increases over the last five years. From 2012 to 2017, the sales volume of domestic brand tires sold in original equipment market and replacement market grew at CAGRs of 9.0% and 9.8%, respectively. Going forward, the figures are expected to increase at CAGRs of 6.3% and 7.1% respectively during the forecast period from 2017 to 2022.

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Sales volume of China domestic brand tires and breakdown by Segment



Source: China Association of Automobile Manufacturers, Frost & Sullivan

Market Drivers of Global and China Automotive Tire Industry

Growth of Global Automobile Production and Number of Automobile in use

After the economic recession in 2008, both automobile production volume and number of automobile in use are undergoing gradual growth globally, which drives both original equipment and replacement markets of automotive tires. The comparatively low penetration rate of automobile in developing countries indicates strong potential demand for tire products.

The implementation of the Belt and Road Initiative

The Belt and Road routes run through the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other. As its principal and cooperation priorities are to enhance regional connectivity, the implementation of the Belt and Road Initiative has substantially stimulated infrastructure construction and transportation sectors in more than 60 countries and regions along the road, generating tremendous demands for commercial vehicles. More importantly, increasing transportation frequency has accelerated the loss for tires of trucks; thereby, a growth of demand in replacement tires for commercial vehicles induces an expansionary development of replacement tire market.

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Stable Growth in the Market of Road Transportation Logistics

The process of urbanization, development of E-commerce, increasing population and disposable income are demand-pull factors that stimulate the growth of road transportation logistics. With increasing volume of merchandise transport activities, more commercial vehicles and longer freight mileages are required in order to achieve an efficient logistics system. Thereby, both original equipment and replacement tire markets are promoted due to the increasing volume of commercial vehicles and tire wear caused by longer freight mileages.

Development Trends of Global and China Automotive Tire Industry

Industry Shift toward New Emerging Markets

China, Japan and South Korea are the leading manufacturing centres of automobile tires in Asia. However due to the increasing labour cost and intensifying competition pressure, automobile tire manufacturers are progressively moving or establishing plants to new emerging markets such as Southeast Asian countries with lower labour cost and raw material prices.

Pursuit for Higher Quality

In line with the increase in disposable income and consumption upgrading, there is an increasing demand for high quality products that perform better in terms of durability, safety, comforts and environmental-protection. Such development requires tire manufacturers to enhance their technology and efficiency by investing more in R&D and reducing costs.

Promotion of Brand Recognition

Due to intensified market competition and acceleration of industry consolidation, large or medium-sized tire enterprises have attached importance to brand strategy in order to meet the market demand for branded products. Large or medium-sized enterprises are expected to invest more resources in improving product quality and innovation services for promoting brand recognition.

Increasing Adoption of Environmental friendly Technologies

Governments have deemed environment protection and sustainable development as one of the priorities in national planning. With the increasingly stringent regulatory environment, more companies will shift to adopt environmental friendly production technologies in the foreseeable future.

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Expanding Product Offerings for New Energy Vehicles

Compared with ordinary tires, new energy vehicle tires generally have higher requirements for lightweight and low rolling resistance in order to improve the vehicle's range and performance. Therefore, tire manufacturers have started to develop new product lines to produce new energy vehicle tires.

COMPETITIVE LANDSCAPE OF CHINA DOMESTIC BRAND AUTOMOTIVE TIRE MARKET

Barriers to Entry

Qualification and Credential Barrier

With the growing awareness of safety, China has introduced a heightened industrial standard and regulated that tire products must acquire CCC certification before launching onto the market. In addition, the exported tire products must undertake a series of rigorous quality tests and obtain quality assurance certificates from internationally recognized quality assessment authorities, such as DOT certificate in North America and ECE certificate in EU. With the development of domestic automotive tire industry and the implementation of new environmental-protection polices, the qualification and credential barrier are going to be strengthened, which will significantly limit new entrants as it is difficult for them to develop in-house quality control system and achieve relevant certificates.

Capital Barrier

Automotive tire industry requires huge initial capital investment. In addition, when selecting tire suppliers, automobile manufacturers generally take the financial strength and production capacity into consideration. The Tire Industrial Policies issued by the MIIT officially regulated the entry requirements on full production capacity, which requires tire manufacturers to invest at least RMB1.0 billion to reach the lowest annual production capacity of 1.2 million radial tires.

Brand Barrier

Both automobile manufacturers and consumers put safety as top priority. In order to ensure driving safety and tire quality and to differentiate themselves under intensive competition, automobile manufacturers tend to cooperate with renowned tire brands, which further hinders new entrants entering this market.

In addition, brand also plays a more crucial role in the replacement market. Consumers generally prefer purchasing tire products with well-known brands due to their concerns over safety and quality.

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Technology Barrier

As the domestic automotive industry is transferring the focus from capacity to quality and value-added service, leading automotive tire manufacturers are actively developing new products with diversified portfolios, improved performance, better control on energy consumption, etc., which requires them strong technical innovation capability, deep understanding of customer needs and product properties, and a well-established professional talents team. Such technical R&D strengths are hard to be achieved by new entrants in a short time. One of the key factors to measure a tire manufacturer's product quality is its warranty claim rate as compared to the industry average, which was 1.32% in 2017 for the PRC tire industry.

Competitive Landscape

The concentration of domestic brand tire sector is comparatively low. The top 10 players in terms of sales volume of All Steel Radial Tires market sold in domestic market in 2017 accounted for 26.6% of total sales volume. In terms of sales volume and sales revenue of All Steel Radial Tires market sold in domestic replacement market in 2017, the top 10 players contributed combined market shares of 21.0% and 22.1% respectively. Limited by research and development capabilities, financial strengths and technology support, the majority of domestic players don't have considerable scales and thus they mainly compete in highly-competitive medium- and low-end tires segment.

Automobile manufacturers and end consumers generally stringently evaluate tire suppliers from a variety of aspects, including product quality, technology capability, design capability, pricing, delivery speed, after-sales service and brand image. Furthermore, considering the significant role of tires in ensuring driving safety, the entry barriers of automotive tire industry is relatively high. Entering into the supply system of automobile manufactures requires an assessment period lasting many years, and poses stringent requirements on the quality control ability of tire manufacturers. Therefore, those mature tire manufacturers who have established solid relationship with automobile manufacturers, abundant capital and technology support for research and development have more prominent competitive edges and occupy dominant positions.

According to the *Tire Industrial Policy* issued by the MIIT, the Chinese government encourages leading domestic tire manufacturers to promote industry upgrading and restructuring by means of M&A, eliminate backward production capacity and green manufacturing, etc., which is expected to further drive the industry consolidation in the future.

With the domestic brand tire industry developing further, the competition among leading domestic brands is expected to strengthen. Those leading players with advanced production techniques, competitive prices, well-recognized quality and brand image are expected to differentiate themselves from such intensifying competition.

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Key Market Players

In terms of total sales volume and revenue of All Steel Radial Tire products (specialty tires excluded) sold in domestic market in 2017, the Company ranked 5th among domestic tire manufacturers. In terms of total sales volume and revenue of All Steel Radial Tire products (specialty tires excluded) sold in domestic replacement market in 2017, the Company ranked 3rd among domestic tire manufacturers.

Ranking by sales volume of All Steel Radial Tire Products (specialty tires excluded) sold in domestic market among domestic tire manufacturers in 2017

Rank	Company	Sales Volume Million	Market Share
1	Company A	8.00	6.1%
2	Company C	4.60	3.5%
3	Company D	3.80	2.9%
4	Company B	3.70	2.8%
5	Our Group	2.70	2.0%
Total		131.70	100.0%

Ranking by sales volume of All Steel Radial Tire products (specialty tires excluded) sold in domestic replacement market among domestic tire manufacturers in 2017

Rank	Company	Sales Volume Million	Market Share
1	Company A	5.60	5.5%
2	Company C	2.70	2.7%
3	Our Group	1.87	1.9%
4	Company B	1.83	1.8%
5	Company D	1.80	1.8%
Total		101.10	100.0%

Source: Frost & Sullivan

Ranking by sales revenue of All Steel Radial Tire Products (specialty tires excluded) sold in domestic market among domestic tire manufacturers in 2017

Rank	Company	Sales Revenue Million RMB	Market Share
1	Company A	5,968.0	6.2%
2	Company D	3,230.0	3.3%
3	Company C	3,220.0	3.3%
4	Company B	2,533.9	2.6%
5	Our Group	2,335.6	2.4%
Total		96,799.5	100.0%

Ranking by sales revenue of All Steel Radial Tire products (specialty tires excluded) sold in domestic replacement market among domestic tire manufacturers in 2017

Rank	Company	Sales Revenue Million RMB	Market Share
1	Company A	4,177.6	5.6%
2	Company C	1,890.0	2.5%
3	Our Group	1,591.9	2.1%
4	Company D	1,530.0	2.1%
5	Company Q	1,511.5	2.0%
Total		74,288.3	100.0%

Source: Frost & Sullivan

Note:

- The sales data exclude sales revenue and sales volume of exported tires.
- All Steel Radial Tires herein exclude specialty tires for typical usages, such as industrial handling equipment, mining equipment, farm and agricultural uses.
- Among All Steel Radial Tires sold by domestic manufacturers, specialty tires accounted for 2.0% and 5.0% in terms of sales volume and sales revenue respectively in 2017.

According to China Customs, the company ranked 9th among domestic tire manufacturers in terms of exported volume of truck and bus tires in 2017. In addition, the company ranked 4th, 1st, 2nd and 5th respectively in terms of sales volume of truck and bus tires exported to the United States, Thailand, Malaysia and Islamic Republic of Pakistan in 2017.

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Ranking by sales volume of truck and bus tires exported to the United States among domestic tire manufacturers in 2017

Rank	Company	Exported Volume	Market Share
		<i>Thousand Tons</i>	
1	Company A	46.7	9.0%
2	Company H	40.3	7.8%
3	Company I	36.8	7.1%
4	Our Group	31.3	6.1%
5	Company J	22.2	4.3%
	Total	<u>516.6</u>	<u>100.0%</u>

Source: Frost & Sullivan

Ranking by sales volume of truck and bus tires exported to the Thailand among domestic tire manufacturers in 2017

Rank	Company	Exported Volume	Market Share
		<i>Thousand Tons</i>	
1	Our Group	9.4	16.4%
2	Company A	6.6	11.5%
3	Company K	4.4	7.7%
4	Company I	3.9	6.8%
5	Company L	2.7	4.7%
	Total	<u>57.2</u>	<u>100.0%</u>

Source: Frost & Sullivan

Ranking by sales volume of truck and bus tires exported to Malaysia among domestic tire manufacturers in 2017

Rank	Company	Exported Volume	Market Share
		<i>Thousand Tons</i>	
1	Company M	3.94	11.3%
2	Our Group	2.52	7.2%
3	Company O	1.78	5.1%
4	Company L	1.75	5.0%
5	Company A	1.69	4.8%
	Total	<u>35.0</u>	<u>100.0%</u>

Source: Frost & Sullivan

Ranking by sales volume of truck and bus tires exported to Islamic Republic of Pakistan among domestic tire manufacturers in 2017

Rank	Company	Exported Volume	Market Share
		<i>Thousand Tons</i>	
1	Company N	11.80	12.1%
2	Company P	7.80	8.0%
3	Company A	7.50	7.7%
4	Company D	7.00	7.2%
5	Our Group	6.00	6.2%
	Total	<u>97.5</u>	<u>100.0%</u>

Source: Frost & Sullivan

Price Trend of Major Raw Materials

Raw material cost is the major cost for the production of automobile tires. Natural rubber, synthetic rubber, carbon black and steel cord are the most common raw materials.

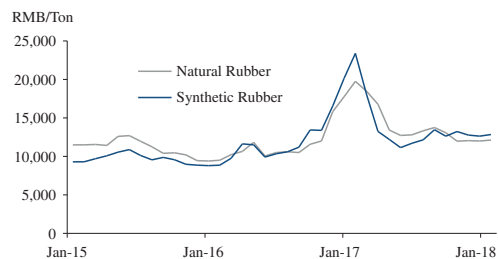
From 2015 to 2016, the price of natural rubber remained relatively stable and an obvious increase at the end of 2016 occurred. In the end of March 2017, it fell back. The price of synthetic rubber followed a similar trend as the price of natural rubber. In the future, the price of natural rubber is expected to remain stable due to steady supply and demand. The price of synthetic rubber will be influenced by the international crude oil price.

From 2015 to 2016, the price of carbon black remained stable and influenced by the tightening regulation in the China chemical industry, its price experienced a mild upward trend since the second quarter of 2016. In the future, such regulation is expected to continue and the price of carbon black will remain stable with slight increase.

The price of steel cord remained relatively stable with slight fluctuations. In the future, the price of steel cord is expected to fluctuate with steel prices and remain stable in the short term.

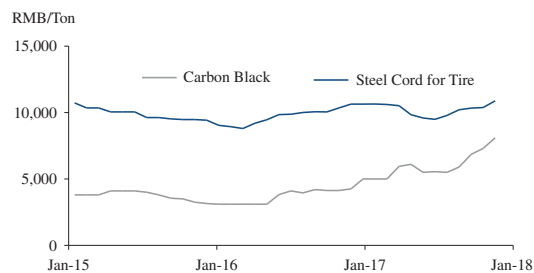
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**Price of Natural Rubber and Synthetic Rubber,
2015-2018**



Source: *Qingdao International Rubber Exchange Market, Frost & Sullivan*

**Price of Carbon Black and Steel Cord,
2015-2018**



Source: *MOFCOM, Company Annual Reports, Frost & Sullivan*

SOURCE OF INFORMATION

We had commissioned Frost & Sullivan to provide information on the tire industry in the PRC. We had agreed to pay a fee of RMB400,000 to Frost & Sullivan for the report. The Directors are of the view that the payment does not affect the fairness of the views and conclusions presented in the Frost & Sullivan Report.

In compiling and preparing the research report, Frost & Sullivan conducted primary research including interviews with industry experts and participants and secondary research which involved reviewing the statistics published by the government official statistics, annual reports and data based on its own database. Frost & Sullivan presented the figures for various market size projections from historical data analysis plotted against macroeconomic data, as well as data with respect to the related industry drivers and integration of expert opinions. Frost & Sullivan assumed that the social, economic and political environment in the PRC is expected to remain stable.

Frost & Sullivan is an independent global consulting firm founded in 1961. It offers industry research, market strategies and provides growth consulting and corporate training. Its industry coverage includes industrial and machinery, automotive and transportation, chemicals, material and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics and technology, media and telecom. The Frost & Sullivan Report includes information on data of the tire industry in the PRC.

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LAWS AND REGULATIONS IN THE PRC

Laws and Regulations Relating to the Compulsory Product Certification of Tire Products

Pursuant to the Regulations of the People's Republic of China on Certification and Accreditation (中華人民共和國認證認可條例) (the State Council Order No. 666) issued by the State Council on September 3, 2003 (effective on November 1, 2003 and amended on February 6, 2016), no products, which must be certified as prescribed by the State, may leave the factory, or may be sold, imported or used in other business activities until after being certified and labelled with the certification marks. The State shall, for those products that must be certified, unify the catalogue of products, the compulsive requirements, standards and conformity assessment procedures of the technical norms, and the marks, as well as the charging standards. Where the products listed in the catalogue leave the factory, or are sold, imported or used in other business activities without certification, violators shall be ordered to make corrections and be imposed upon a fine above RMB50,000 and below RMB200,000, and the illegal gains shall be confiscated if any.

Pursuant to the Provisions on the Administration of Compulsory Product Certification (強制性產品認證管理規定) (Order of the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (the "AQSIQ") No. 117) issued by the AQSIQ on July 3, 2009 (effective on September 1, 2009), the State shall, with respect to the products subject to compulsory product certification, unify the catalogue of products, the compulsive requirements, standards and conformity assessment procedures of the technical norms, and the certification marks, as well as the charging standards. Certification and Accreditation Administration of the People's Republic of China (the "CNCA") shall provide a uniform format and content for compulsory product certification certificates as well as the patterns and types of the compulsory product certification marks. A certification certificate shall be valid for five years. Where a certification certificate is required to be used continually upon the expiry of its valid period, the producer, seller or importer shall file an application within 90 days prior to the expiry of the valid period of the certification certificate. For uncertified products listed in the said catalogue, if they have not left the factory or been sold, the two local quality inspection bureaus (namely, local quality and technical supervision authorities at all levels and entry-exit inspection and quarantine agencies in different places) shall exhort the product producers to conduct compulsory production certification in time. If such products leave the factory without certification, or are sold, imported or used in other business activities, violators shall be punished by the two local quality inspection bureaus pursuant to the Regulations of the People's Republic of China on Certification and Accreditation. A violator shall be ordered to make corrections by the two local quality inspection bureaus and imposed upon a fine of less than RMB30,000 by them, under any of the following circumstances: (i) the samples furnished by the certification client are not identical with the products it actually produces; (ii) as in violation of these Provisions, the certification client fails to apply with the certification agency for modifying the certification certificate and allows the product listed in the catalogue to leave the factory, or to be sold, imported or used in other business activities; or (iii) as in violation of these Provisions, the certification client fails to apply with the certification agency for extending the coverage of the certification

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certificate and allows the product listed in the catalogue to leave the factory, or to be sold, imported or used in other business activities. A violator shall be ordered to make corrections by the two local quality inspection bureaus and imposed upon a fine of less than RMB20,000 by them if it fails to make corrections within the time limit, under any of the following circumstances: (i) the content of the certification certificate as indicated on the certified product and its sale packages are different from the content of the certification certificate; or (ii) as in violation of these Provisions, the certification client fails to use the certification marks correctly.

Pursuant to the Catalogue of First-batch Products Subject to Compulsory Product Certification (第一批實施強制性產品認證的產品目錄) (Announcement of AQSIQ and CNCA No. 33) jointly issued by the AQSIQ and the CNCA on December 3, 2001 (effective on the same day), motor vehicle tire is included in the catalogue of products subject to compulsory product certification. Therefore, motor vehicle tires which have not obtained compulsory product certification certificate and have not been labelled with the marks of China Compulsory Certification shall not leave the factory, or be exported or sold. Motor vehicle tires subject to compulsory certification include car tires (radial tires and Bias Tires of cars), heavy load vehicle tires (tires of mini-sized, light-duty, medium-sized/heavy-duty vehicles) and motorcycle tires.

Pursuant to the Rules for Implementing Compulsory Product Certification of Motor Vehicle Tires (機動車輛輪胎強制性產品認證實施規則) (Announcement of CNCA [2015] No. 27) issued by the CNCA on September 8, 2015 (effective on January 1, 2016), the criteria applicable to the compulsory product certification of motor vehicle tires include the mandatory provisions in the standards of car tires (GB9743), heavy load vehicle tires (GB9744) and motorcycle tires (GB518).

Laws, Regulations and Policies Relating to the Access to and Supervision of the Tire Industry

Tire industry policy

Pursuant to the Tire Industry Policy (Industrial Policy [2010] No. 2) issued by the MIIT on September 15, 2010 (effective on the same day), according to the need of economic and social development and in line with the overall planning and objectives for the development of petrochemical industry, the restructuring of the tire industry will be actively promoted through a range of measures including merger and reorganization, layout optimization, total amount control, elimination of out-dated capacity, technological transformation, energy saving and emission reduction, so as to achieve the change from an industry with large scale to one with strong performance.

As for product adjustment, it is encouraged to develop high-performance radial tires that are safe, energy-saving and environment-friendly, radial tires for mega-engineering, wide-section and flat radial tires for passenger cars and tubeless radial tires for heavy load vehicles. In 2015, the ratios of radial tires in all tires produced for passenger cars, light-duty vehicle and

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heavy load vehicle reached 100.0%, 85.0% and 90.0%, respectively; more focus was put on the development of engineering radial tires, aircraft radial tires and low-speed vehicle radial tires. Strict restrictions are put on the development of Bias Tires, and no new production capacity of Bias Tires is allowed except for aircraft tires. Production lines of Bias Tires and tires using natural cotton cord fabrics as frame with an annual output of 500,000 tires or less will be eliminated. The development of tubed radial tires for heavy load vehicle will be curbed.

As for the technical policy, tire manufacturers are guided and encouraged to strengthen the construction of technology centres, use technology integration and new technology to engineer the application and development, and enhance the capability of independent innovation and new product development, and they are also encouraged to engage in the development integrating “industry, university, research institute and application” and commissioned development. In accordance with the provisions of tax laws and regulations, enterprises can enjoy the relevant tax incentives in respect to their costs of developing new technologies, products and processes.

As for the creation of supporting conditions, tire enterprises are encouraged to participate in the planting and processing of natural rubber, optimize the primary processing of natural rubber, and take the processing technology, product quality and logistics service to a higher level; and the enterprises are guided to “go global” to set up overseas natural rubber planting and processing bases.

As for the industry access, each project of heavy load vehicle radial tires to be built, renovated and expanded shall at least have an annual production capacity of more than 1.2 million tires; while each project of light-duty vehicle radial tires and car radial tires to be built, renovated and expanded shall at least have an annual production capacity of more than six million tires. Projects for the mixed production of radial tires of heavy load vehicle, light-duty vehicle and cars to be built, renovated and expanded shall also meet the above requirements in terms of production capacity of a single type of product. Moreover, each project of engineering tires (large-size engineering tires excluded) to be built, renovated and expanded shall at least have an annual production capacity of more than 30,000 tires. In the scenic spots, natural reserves, drinking water source protection zones established according to law and around the residential areas, no new tire manufacturer, old tire refurbishing enterprise and scrap tire recycling enterprise shall be established. The tire manufacturer, old tire renovating enterprise and scrap tire recycling enterprise that have started production and operation in the above-mentioned area should gradually move out by relocation or switch to other production according to the planning requirements of the areas.

As for investment management, any project of building, renovating and expanding tire production invested by domestic enterprises (including the construction through merger and reorganization at another place and by a branch at another place who is not an independent legal person) shall be filed for record with the relevant departments confirmed by the provincial people’s government. Any project of building, renovating and expanding tire production funded by foreign investments, with a total investment amount of less than USD300 million shall be approved by the relevant departments confirmed by the provincial people’s government; and those with a total investment amount of USD300 million and above shall be reported to the national authorities by the relevant departments confirmed by the provincial people’s government.

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Catalogue for Guiding Industrial Restructuring

Pursuant to the Catalogue for Guiding Industrial Restructuring (產業結構調整指導目錄) (Order No. 21 of the NDRC) issued by the NDRC on March 27, 2011 (effective on June 1, 2011) and later amended on February 16, 2013 (effective on May 1, 2013), high-performance radial tires (including tubeless radial tire for heavy load vehicle, high-performance radial tires for cars with low-section and flat shape (lower than 55 series) and large rim (more than 15 inch)), aircraft tires and radial tires for agricultural vehicles as well as associated special materials and equipment were included in the state-encouraged industries; new Bias Tires and cycle tires (handcart tires) were included in the state-restricted industries; and the production lines of Bias Tires and tires using natural cotton cord fabrics as frame with an annual output of 500,000 or less were included in the state-eliminated industries.

Preconditions for Tire Industry Access

Pursuant to the Preconditions for the Access to Tire Industry (輪胎行業準入條件) (Announcement of MIIT [2014] No. 58) issued by the MIIT on September 5, 2014 (effective on October 1, 2014), in order to accelerate the industrial upgrading of the tire industry, standardize the production order of the industry, guide the fair competition in the industry and promote the sustainable and healthy development of the industry, it is stressed and noted therein that enterprises should abide by relevant laws and regulations on environmental protection, and tire products should meet relevant quality standards and energy and resource consumption indicators and it is encouraged to develop green tires that are energy-saving, environmentally-friendly and safe.

Pursuant to the Notice on Issuing the Interim Measures for the Administration of Tire Manufacturers Bulletin (關於印發輪胎生產企業公告管理暫行辦法的通知) (MIIT Yuan [2015] No. 30) issued by the MIIT on January 26, 2015 (effective on March 1, 2015), the preconditions for tire industry access should be implemented, and the management of tire manufacturers bulletin shall be standardized. The notice requires local industrial authorities at all levels to supervise and inspect the implementation of the access preconditions by enterprises in where they are located, and then the MIIT spot checks enterprises on the bulletin and encourages all walks of life to supervise the implementation of access preconditions by such enterprises. The list of companies on the bulletin that meet the access preconditions will serve as the basis for relevant policy support. For enterprises that are not listed in the bulletin, the relevant policies will not support them.

Operating Standards of the Industry

On September 27, 2008, the MOFCOM issued the Requirements for Standardized Operation of Tire Distribution Enterprises (輪胎經銷企業經營規範管理要求) (SB/T 10468.1-2008) (implemented on March 1, 2009), which clearly states, among others, the operating environment requirements and business management requirements on tire distributors such as tire suppliers (which usually means tire manufacturers), tire wholesalers and tire retailers. On the same day, the MOFCOM issued the Requirements for Claims in

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Standardized Operation of Tire Distribution Enterprises (輪胎經銷企業經營規範理賠要求) (SB/T 10468.2-2008) (implemented on March 1, 2009), which stipulates the principle of claims, the scope of claims and the scope beyond claims, determination of obligation and quality responsibility of all parties (tire manufacturers, repairers, distributors, users/consumers), the conditions and method of claim settlement, confirmation of claim settlement period and cycle, settlement procedures and dispute resolution and so on.

Defective Tire Recall System

Pursuant to the Regulation on the Administration of Recall of Defective Auto Products (缺陷汽車產品召回管理條例) (the State Council Order No. 626) issued by the State Council on October 22, 2012 (effective on January 1, 2013), any defective tire that is not equipped with an auto product upon leaving the factory shall be recalled by the manufacturer.

Pursuant to the Measures for the Implementation of the Regulation on the Administration of the Recall of Defective Auto Products (缺陷汽車產品召回管理條例實施辦法) (Order of the AQSIQ No. 176) issued by the AQSIQ on November 27, 2015 (effective on January 1, 2016), where there is any defect in its auto products, a manufacturer shall recall such products in accordance as required. The recall of a tire that is not equipped with an auto vehicle upon leaving the factory and its supervision and management shall be specified by the AQSIQ separately.

Policies Relating to Industrial Upgrading

On February 14, 2014, Shandong Provincial Government issued the Opinions of Shandong Provincial People's Government on Implementing Overcapacity Reduction by Thoroughly Following the Guo Fa [2013] No. 41 File (山東省人民政府關於貫徹國發[2013]41號檔化解過剩產能的實施意見) (Lu Zheng Fa [2014] No. 4) (effective on February 14, 2014), which includes the tire industry in the industries with overcapacity of Shandong Province. The opinions encourage the tire industry to improve the level of production automation and information technology and promote the use of low temperature continuous mixing, nitrogen vulcanization and other advanced technologies, so as to propel the industrial restructuring and upgrading, expand the space of industrial development, and raise industry concentration; and encourage the introduction of new-generation products, the vigorous development of giant engineering radial tires, snow tires, fuel-efficient tires, run-flat tires and other special products and high-end products.

On December 7, 2015, Shandong Provincial Government General Office released the Opinions of Shandong Provincial People's Government General Office on Strengthening the Management of Safety, Environmental Protection and Energy Saving to Speed up the Transformation and Upgrading of the Province's Chemical Industry (山東省人民政府辦公廳關於加強安全環保節能管理加快全省化工產業轉型升級的意見) (Lu Zheng Ban Zi [2015] No. 231) (effective on December 7, 2015), in order to speed up the transformation and upgrading of chemical industries such as tire industry.

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On March 28, 2016, the Shandong Provincial Government released the Action Outline of Shandong Province for “Made in China 2025” (《中國製造2025》山東省行動綱要) (Lu Zheng Fa [2016] No. 9) (effective on March 28, 2016) to promote the merger and reorganization and capacity integration of enterprises and to make the tire industry more centralized. The outline urges breakthroughs in common key technologies and equipment, development and application of green manufacturing technology, and continuous improvement in the performance indicators of radial tires for passenger cars, heavy load vehicles and engineering and other products, focusing on the development of high-performance, green and safe tire products.

On November 24, 2016, the State Council released the Plan on Ecological and Environment Protection During the 13th Five-Year Period (“十三五”生態環境保護規劃) (Guo Fa [2016] No. 65) (effective on November 24, 2016), which includes measures to improve the recycling network of renewable resources and standardize and perfect the management of industries engaged in comprehensive utilization of scrap tires and other materials, trying to establish a reverse recycling pipeline. The plan also promotes new recycling methods such as “Internet + Recycling” and smart recycling, and adopts the producer responsibility extension regime.

On February 3, 2017, the State Council released the Plan on Development of Modern and Integrated Transportation System During the 13th Five-Year Period (“十三五”現代綜合交通運輸體系發展規劃) (Guo Fa [2017] No. 11) (effective on February 3, 2017), which encourages the standardized design and factory prefabrication, comprehensive utilization of scrap tires and other materials in engineering construction.

On April 7, 2017, Shandong Provincial Government released the Plan of Shandong Province on Ecological and Environmental Protection During the 13th Five-Year Period (山東省生態環境保護“十三五”規劃) (Lu Zheng Fa [2017] No. 10) (effective on April 7, 2017) to regulate and improve the management of industries engaged in the comprehensive utilization of scrap steel, scrap tires, waste battery and other materials, and adopt the producer responsibility extension regime.

Laws and Regulations Relating to Product Liability

Laws on product quality

Pursuant to the Product Quality Law of the People’s Republic of China (中華人民共和國產品質量法) promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “SCNPC”) on February 22, 1993 (effective on September 1, 1993 and amended on July 8, 2000 and August 27, 2009), producers shall be liable for the quality of the products they produce, and the products shall meet the following requirements: (i) constituting no unreasonable threats to safety of people and property, and conforming to the national standards or the industrial standards for ensuring human health, personal safety and safety of property, where there are such standards; (ii) possessing the properties as required, except for those with directions stating their functional defects; and (iii) conforming to the product standards marked on the products or on the packages thereof, and to the quality

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conditions indicated by way of product directions, samples, etc. Producers shall be liable for the damages caused by the defect of their products. Producers who violate the Product Quality Law of the PRC may be subject to a fine and be ordered to cease production of their unlawfully produced products, and their illegal earnings may be confiscated. If the circumstances are serious, the business license shall be revoked. If a crime is constituted, criminal responsibility of the producer shall be investigated. In addition, the PRC has established and applied the authentication policies with respect to the quality system of enterprises and product quality. An enterprise may, on a voluntary basis, apply for such authentications from an authentication body recognized or authorized by the department overseeing product quality under the State Council of the PRC.

Special Rules on Strengthening the Supervision and Management of the Safety of Food and Other Products (關於加強食品等產品安全監督管理的特別規定)

Pursuant to the Special Rules on Strengthening the Supervision and Management of the Safety of Food and Other Products (關於加強食品等產品安全監督管理的特別規定) (Order of the State Council No. 503) (國務院令第503號) issued by the State Council on July 26, 2007 (effective on the same day), a producer or business operator shall be responsible for the safety of products produced or sold by it, and shall not produce or sell products that do not conform to the statutory requirements. Where the production or sale of products requires a license or authentication according to a law or administrative regulation, the production or business operation shall be carried out in conformity with the statutory conditions and requirements. Where the production or business operation is not carried out in conformity with the statutory conditions and requirements or the products that do not conform to the statutory requirements are produced or sold, the regulatory authorities for agriculture, health, quality inspection, commerce, industry and commerce, drug, etc., in their respective capacities, shall impose a fine and confiscate the illegal income. If serious consequences are caused, relevant permits or license may be revoked. If a crime is constituted, criminal responsibility of the producer and business operator shall be investigated. A producer or business operator of exported products shall ensure that their exported products conform to the standards of the importing country (or region) or the contractual provisions. Where a law provides that the products must undergo inspection before export, the products shall pass the inspection conducted by a legally recognized agency. The imported products shall conform to the mandatory requirements of the state technical specifications of the PRC and the inspection requirements set forth in the agreement entered into between China and the exporting country (or region). Any producer or business operator of export products who evades the product inspection or commits forgery in connection therewith shall be subject to the confiscation of illegal income and products and a fine three times the value of goods. If a crime is constituted, the criminal responsibility shall be investigated.

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Laws on tort liability

Pursuant to the Tort Law of the People's Republic of China (中華人民共和國侵權責任法) promulgated by the SCNPC on December 26, 2009 (effective on July 1, 2010), manufacturers shall be liable for the damages caused by the defect of their products. Where a seller can neither specify the manufacturer of a defective product nor the supplier of the defective product, the seller shall assume the tort liability. Where any harm is caused by a defective product, the victim may require compensation to be made by the manufacturer of the product or the seller of the product. If the defect of the product is caused by the manufacturer and the seller has made the compensation for the defect, the seller shall be entitled to be reimbursed by the manufacturer. If the defect of the product is caused by the fault of a third party (such as transporter or warehouse operator), the manufacturer or seller of the product that has paid the compensation shall be entitled to be reimbursed by the third party. Where any defect of a product is found after the product is put into market circulation, the manufacturer or seller shall take such remedial measures as warning and recall in a timely manner. If any damage is caused due to the untimeliness or ineffectiveness of the remedial measures, both the manufacturer and seller shall bear tortious liability. Where a manufacturer or seller knowing any defect of a product continues to manufacture or sell the product and the defect causes a death or any serious damage to the health of another person, the victim shall be entitled to require the corresponding punitive compensation made by the manufacturer or the seller.

Laws on consumer protection

Pursuant to the Law of the People's Republic of China on the Protection of Consumers' Rights and Interests (中華人民共和國消費者權益保護法) promulgated by the SCNPC on October 31, 1993 (effective on January 1, 1994) and amended on August 27, 2009 and October 25, 2013 (the latest revision effective on March 15, 2014), consumers shall, in their purchasing and using commodities or receiving services during daily consumption, enjoy the right and interest of the inviolability of their personal and property safety. Consumers whose legitimate rights and interests are infringed upon in their purchasing and using commodities or in receiving services may demand compensation from the sellers and/or manufacturer of such commodities or services. Consumers or other victims suffering from personal injuries or property damages resulting from defects of commodities may demand compensation either from the sellers or from the manufacturers. If the liability is on the manufacturers, the sellers shall, after paying the compensation, have the right to recover the compensation from the manufacturers. If the liability is on the sellers, the manufacturers shall, after paying the compensation, have the right to recover the compensation from the sellers. Where a business operator violates the Law of the PRC on Protection of Consumers' Rights and Interests or other relevant laws or regulations, it may be subject to a fine, an order to cease production or the revocation of license. Where a business operator's provision of goods or services in violation of the Law of the PRC on the Protection of Consumers' Rights and Interests infringes upon the legitimate rights and interests of consumer and constitutes a crime, the criminal responsibility shall be investigated.

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Laws and Regulations Relating to Work Safety

Pursuant to the Work Safety Law of the People's Republic of China (中華人民共和國安全生產法) promulgated by the SCNPC on June 29, 2002 (effective on November 1, 2002) and amended on August 27, 2009 and August 31, 2014 (the latest revision effective on December 1, 2014), production and operation entities shall be equipped with the conditions in compliance with relevant work safety laws and regulations, and shall establish relevant codes of work safety, improve the conditions for safe production, and ensure the safety during production. Any enterprise that fails to meet the requirements for safe production shall be prohibited from engaging in production or other business activities. In addition, an enterprise shall educate its employees on matters concerning production safety. Production and operation entities with more than 100 employees shall establish a production safety management organ to enhance the safety of production facilities, or appoint full-time personnel to manage production safety. Any enterprise that fails to comply with the relevant work safety requirements may be subject to a fine and be ordered to cease production. If a crime is constituted, criminal responsibility of the enterprise shall be investigated.

Laws and Regulations Relating to Environmental Protection

Pursuant to the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) promulgated by the SCNPC on December 26, 1989 and amended on April 24, 2014 (the latest revision effective on January 1, 2015), the Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水污染防治法) promulgated by the SCNPC on May 11, 1984 (effective on November 1, 1984) and amended on May 15, 1996, February 28, 2008 and June 27, 2017 (the latest revision effective on January 1, 2018), the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國大氣污染防治法) promulgated by the SCNPC on September 5, 1987 (effective on June 1, 1988) and amended on August 29, 1995, April 29, 2000 and August 29, 2015 (the latest revision effective on January 1, 2016), the Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法) promulgated by the SCNPC on October 29, 1996 (effective on March 1, 1997), and the Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes (中華人民共和國固體廢物污染環境防治法) promulgated by the SCNPC on October 30, 1995 (effective on April 1, 1996) and amended on December 29, 2004, June 29, 2013, April 24, 2015 and November 7, 2016, enterprises discharging pollutants, such as waste gas, waste water, solid wastes and noise shall take effective measures to control and even avoid pollution and other damages caused by such pollutants and shall pay pollutant discharge fees according to relevant laws and regulations. Any enterprise subject to pollutant discharge permit administration shall be prohibited from discharging pollutants if it has not obtained a pollution discharge permit and from discharging pollutants in excess of the amount permitted by the pollutant discharge standards, and shall discharge pollutants according to the requirements of the pollutant discharge permit. Environmental protection facilities should be designed, constructed and put into operation in sync with the main operating unit. Where an enterprise fails to comply with relevant environmental protection requirements, the competent authority may issue a warning to or impose a fine on the enterprise, or even order the enterprise to cease production. If a crime is constituted, the person in charge of the enterprise may be subject to criminal liabilities.

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Pursuant to the Regulation on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) (Order of the State Council No. 682) rolled out on November 29, 1998 (effective on the same day) and amended on July 16, 2017 (the latest revision effective on October 1, 2017), the Law of the People's Republic of China on Environmental Impact Assessment (中華人民共和國環境影響評價法) promulgated on October 28, 2002 (effective on September 1, 2003) and amended on July 2, 2016 (the latest revision effective on September 1, 2016), the Measures for the Administration of Recordation of Registration Forms of Environmental Impact of Construction Projects (建設項目環境影響登記表備案管理辦法) (Order of the Ministry of Environmental Protection No. 41) issued on November 16, 2016 (effective on January 1, 2017) and the Measures for the Administration of Environmental Protection Acceptance Upon Completion of Construction Projects (建設項目竣工環境保護驗收管理辦法) (Order of the State Environmental Protection Administration (currently known as the Ministry of Environmental Protection) No. 13) issued on December 27, 2001 and amended on December 22, 2010 (the latest revision effective on December 22, 2010), the PRC has implemented a system for the assessment of environmental impact of construction projects. In light of the extent of impact exerted on the environment by a construction project, the constructing entity shall prepare an environmental impact report, or an environmental impact statement or an environmental impact registration form regarding the environmental impact of the construction project. Relevant report and statement shall be approved by the competent environmental protection administrative department prior to the commencement of construction, while the registration form is administrated by way of record-filing. Furthermore, the constructing entity shall, upon completion of a construction project for which an environmental impact report or an environmental impact statement has been prepared, carry out acceptance check of the supporting environmental protection facilities being constructed and prepare an acceptance report according to the standards and procedures required by the environmental protection administrative department under the State Council, and such supporting environmental protection facilities shall be put into operation simultaneously or used together with the main body of the project.

Pursuant to the Measures for the On-going and Ex-post Supervision and Administration of Construction Project Environmental Protection (Trial) (建設項目環境保護事中事後監督管理辦法(試行)) (Huan Fa [2015] No. 163) promulgated by the Ministry of Environmental Protection on December 10, 2015 (effective on the same day), constructing entities shall give full disclosure of the environmental information, including but not limited to environmental impact assessment documents. During construction of a project, if the constructing unit fails to fulfil the requirements set forth in the approved environmental impact assessment documents and relevant approval documents and thus causes ecological damage, its legal responsibility shall be investigated. Where the constructing unit does not disclose or falsely discloses the environmental information of a construction project, relevant environmental protection department shall order it to make public such information, impose a fine and make a public announcement thereon.

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Laws and Regulations Relating to Foreign Investment

The establishment procedures, approval and registration procedures, registered capital requirements, foreign exchange matters, finance and accounting practices, taxation and labour matters and other matters relating to Chinese-foreign equity joint ventures are provided for in the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法) promulgated by the SCNPC on July 8, 1979 and amended on April 4, 1990, March 15, 2001, and September 3, 2016 (the latest revision effective on October 1, 2016), and the Regulation on the Implementation of the Law of the People Republic of China on Chinese-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法實施條例) issued by the State Council on September 20, 1983 and amended on January 15, 1986, December 21, 1987, July 22, 2001, January 8, 2011 and February 19, 2014 (the latest revision effective on March 1, 2014).

The organization and behaviour of corporate entities in the PRC is governed by the Company Law of the People's Republic of China (中華人民共和國公司法) promulgated by the SCNPC on December 29, 1993 and amended on December 25, 1999, August 28 2004, October 27, 2005 and December 28, 2013 (the latest revision effective on March 1, 2014). The Company Law of the People's Republic of China governs two types of company established in China, namely, limited liability company and company limited by shares. Both types of company have the status of a legal person. A shareholder of a limited liability company shall be liable for the company to the extent of the capital contribution it subscribes, while a shareholder of a company limited by shares shall be liable for the company to the extent of the shares it subscribes. The Company Law of the People's Republic of China shall also apply to foreign-funded companies in the PRC.

As for wholly foreign-owned enterprises, the establishment procedures, approval procedures, registration, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of them are governed by the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises (中華人民共和國外資企業法) promulgated by the National People's Congress (the "NPC") on April 12, 1986 and amended on October 31, 2000 and September 3, 2016 (the latest revision effective on October 1, 2016), and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法實施細則) (Order of the State Council No. 648) issued by the Ministry of Foreign Economic Relations and Trade on December 12, 1990 (effective on the same day) and amended on April 12, 2001 and February 19, 2014 by the State Council (the latest revision effective on March 1, 2014), and the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (外商投資企業設立及變更備案管理暫行辦法) (Order of the MOFCOM [2018] No. 6) issued on October 8, 2016 (effective on the same day) and amended on July 30, 2017 and June 29, 2018 (the latest version effective on June 30, 2018).

According to the Provisions on Guiding the Orientation of Foreign Investment (指導外商投資方向規定) (Order of the State Council No. 346) promulgated by the State Council on February 11, 2002 (effective on April 1, 2002), all foreign-invested projects are categorized

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into “encouraged”, “permitted”, “restricted” and “prohibited”. Foreign-invested projects falling into the categories of “encouraged”, “restricted” and “prohibited” are listed under the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄), while any foreign-invested project not falling into the categories of “encouraged”, “restricted” and “prohibited” is a “permitted” foreign-invested project unless expressly prohibited or restricted by other free trade zone agreement or otherwise by investment-related agreement between China and other country or region. The Catalogue of Industries for Guiding Foreign Investment (Order of the NDRC and MOFCOM [2017] No. 4) which was jointly issued by the MOFCOM and NDRC on June 28, 2017 came into effect as of July 28, 2017, stipulating the foreign-invested projects falling into the categories of “encouraged”, and the Special Management Measures (Negative List) for the Access of Foreign Investment (Order of the NDRC and MOFCOM [2018] No. 18) which was jointly issued by the MOFCOM and NDRC on June 28, 2018 came into effect as of July 28, 2018, providing the foreign-invested projects falling into the categories of “restricted” and “prohibited”.

Pursuant to the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (外商投資企業設立及變更備案管理暫行辦法) (Order of the MOFCOM [2018] No. 6) issued by the MOFCOM on October 8, 2016 and amended on July 30, 2017 and June 29, 2018 (the latest version effective on June 30, 2018), any establishment of or change to a foreign-funded enterprise that is beyond the effect of access-related special administrative measures as prescribed by the Catalogue shall be subject to recordation administration. The scope of special administration measures for foreign investment access shall be implemented according to the provisions with respect to the “restricted” and “prohibited” projects as well as the provisions of equity requirement and senior management requirement with respect to the “encouraged” projects in the Catalogue. Any foreign-funded enterprise subject to recordation administration shall complete the procedures of registration change online within 30 days upon occurrence of (i) change to the basic information of a foreign-funded enterprise; (ii) change to the basic information of investors in a foreign-funded enterprise; (iii) change to the basic transaction information on the establishment of a foreign-funded enterprise through M&A; (iv) change to the equity (shares) and cooperation interests; (v) combination, division or dissolution; (vi) mortgage or transfer of a foreign-funded enterprise’ property or rights and interests to another party, (vii) accelerated disinvestment by a foreign party to a Chinese-foreign equity joint venture; and (viii) entrusted operation and management of a Chinese-foreign equity joint venture. Where a foreign-funded enterprise subject to recordation administration incurs any change involving access-related special administrative measures as prescribed by the Catalogue, the enterprise shall complete approval procedures in accordance with relevant foreign investment laws and regulations.

Laws and Regulations Relating to Foreign Exchange Control

The Regulation of the People’s Republic of China on Foreign Exchange Administration (中華人民共和國外匯管理條例) (Order of the State Council No. 532) (The “**Foreign Exchange Regulation**”) issued by the State Council on January 29, 1996 (effective on April 1, 1996) and amended on January 14, 1997 and August 5, 2008 (the latest revision effective on August 5, 2008) forms a significant legal basis for foreign exchange supervision of China. Under the Foreign Exchange Regulation, Renminbi is freely convertible on a real and legal basis for the payment of current account items such as foreign trade of goods and relevant services and dividend payment, but not freely convertible for such capital expenses as direct

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investment, lending or securities investment outside the PRC unless the approval has been obtained from State Administration of Foreign Exchange or its competent local branch. When foreign exchange gains from a capital account are retained by or sold to a financial institution engaging in the businesses of foreign exchange settlement and sales, the approval shall be obtained from the foreign exchange administrative authority, except those exempt of the approval under relevant rules of the state. Any foreign exchange payment from a capital account shall be made out of the payer's own foreign exchange funds with valid documents or out of foreign exchange funds purchased from any financial institution engaging in the businesses foreign exchange settlement and sales, in accordance with laws and regulations enacted by the foreign exchange administrative department under the State Council. Where a foreign exchange payment requires the approval from the foreign exchange administrative authority, the payer shall obtain such approval before making the payment.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (Hui Fa [2015] No. 19) issued by the SAFE on March 30, 2015 (effective on June 1, 2015) and the Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Policies for the Administration of Settlement of Foreign Exchange under Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (Hui Fa [2016] No. 16) issued by the SAFE on June 9, 2016 (effective on the same day), a foreign-funded enterprise may settle foreign exchange capital at its discretion; and may settle the foreign exchange capital in its capital account for which a confirmation of interests in capital contribution by cash has been given by relevant foreign exchange authority (or for which capital contributors by cash has been recognized by a bank upon recording) at a bank according to the actual operating need of the enterprise. Foreign-fund enterprises are temporarily allowed to settle 100.0% of their foreign exchange capital on a discretionary basis. The SAFE may adjust the said percentage as appropriate based on international balance of payments at the time of settlement. In addition, a foreign-funded enterprise shall not use foreign exchange income from an capital account and RMB funds from the foreign exchange settlement to: (i) directly or indirectly cover the expenditure beyond its business scope or the expenditure prohibited by the laws and regulations of China; (ii) directly or indirectly invest in securities or other investment and wealth management products except for capital-protected product offered by a bank unless otherwise expressly prescribed; (iii) grant loans to non-affiliated enterprise unless expressly permitted within its business scope; and (iv) construct or purchase real estate not for its own use unless it is a real estate enterprise.

Laws and Regulations Relating to Import and Export of Goods

Pursuant to the Customs Law of the People's Republic of China (中華人民共和國海關法) promulgated by the SCNPC on January 22, 1987 (effective on the same day) and amended on July 8, 2000, June 29, 2013, December 28, 2013, November 7, 2016 and November 4, 2017 (the latest revision effective on November 5, 2017), and Provisions of the Customs on the Administration of Registration of Customs Declaration Entities (海關報關單位註冊登記管理規定) issued by the General Administration of Customs on March 13, 2014 (General

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Administration of Customs (“GAC”) Order No. 240), and amended on December 20, 2017 and May 29, 2018 (latest revision effective on July 1, 2018), unless otherwise prescribed, the consignee and consigner of imported or exported goods may complete the customs declaration for the import or export of goods and pay relevant duties on its own, or entrust a customs broker registered under the permission of the competent customs to do so. Such consignee and consigner of the imported or exported goods and customs broker shall be registered with competent customs in accordance with law. The owner of imported or exported articles may complete the customs declaration or pay relevant duties on its own or entrust another person to do so.

Pursuant to the Foreign Trade Law of the People’s Republic of China (中華人民共和國對外貿易法) promulgated by the SCNPC on May 12, 1994 (effective on July 1, 1994) and amended on April 6, 2004 and November 7, 2016 (the latest revision effective on November 7, 2016), foreign traders engaging in import and export of goods or technology shall complete the filing and registration with competent foreign trade administrative department under the State Council or its delegated institutions except for those foreign traders exempted from doing so by laws, administrative regulations or requirements of competent foreign trade administrative department under the State Council. The specific measures for filing and registration shall be formulated by the competent foreign trade administrative department under the State Council. Where a foreign trader fails to complete the filing and registration, the customs will refuse to handle customs declaration and the clearance of goods imported or exported by the operator.

Pursuant to the Law of the People’s Republic of China on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) promulgated by the SCNPC on February 21, 1989 and amended on April 28, 2002, June 29, 2013 and April 27, 2018 (the latest revision effective on April 27, 2018) and the Regulations for the Implementation of the Law of the People’s Republic of China on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法實施條例) issued by the State Administration of Imported and Exported Commodity Inspection on October 23, 1992 and re-issued by the State Council on August 31, 2005, and amended on July 18, 2013, February 6, 2016 and March 1, 2017 (the latest revision effective on March 1, 2017), imported and exported goods listed in the Catalogue shall be inspected by import and export commodity inspection authorities. No permission shall be granted for the sale or use of goods until they have undergone inspection; and no permission shall be granted for the export of goods until they have passed the inspection. The consignee of imported goods subject to inspection by import and export commodity inspection authorities or its agent shall file for inspection with the import and export commodity inspection authority at the place of customs declaration. The customs shall verify and release the goods against relevant customs clearance certificate signed and issued by the import and export commodity inspection authority; while the consignee of exported goods subject to inspection by import and export commodity inspection authorities or its agent shall file for inspection with the import and export commodity inspection authority at the place and within the time limit prescribed by such authority. The import and export commodity inspection authority shall finish the inspection within the time limit uniformly prescribed by the state commodity inspection department and issue an inspection certificate. The customs shall verify and release the goods against relevant customs clearance certificate issued by the commodity inspection authority.

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Anyone who violates the above provisions shall be subject to the confiscation of illegal income and a fine by the import and export commodity inspection authority; and if a crime is constituted, the criminal liability shall be investigated.

Pursuant to the Announcement on the Adjustments to the Catalogue of Entry-Exit Commodities Subject to Inspection and Quarantine by Entry-Exit Inspection and Quarantine Institutions (關於調整《出入境檢驗檢疫機構實施檢驗檢疫的進出境商品目錄》的公告) (AQSIQ and GAC Joint Bulletin [2013] No. 109) jointly issued by the AQSIQ and the General Administration of Customs on August 1, 2013 (effective on August 15, 2013), the Catalogue of Entry-Exit Commodities Subject to Inspection and Quarantine by Entry-Exit Inspection and Quarantine Institutions has been adjusted. Since August 15, 2013, China has ceased to conduct export commodity inspection of tires and other rubber products.

Laws and Regulations Relating to Intellectual Property Rights

Patent Law

Pursuant to the Patent Law of the People's Republic of China (中華人民共和國專利法) promulgated by the SCNPC on March 12, 1984 (effective on April 1, 1985) and amended on September 4, 1992, August 25, 2000, and December 27, 2008 (the latest revision effective on October 1, 2009), and the Implementation Regulations for the Patent Law of the People's Republic of China (中華人民共和國專利法實施細則) (order of the State Council No. 569) issued by the State Council on June 15, 2001 (effective on July 1, 2001) and amended on December 28, 2002 and January 9, 2010 (the latest revision effective on February 1, 2010), there are three types of patent, namely, patent for invention, patent for design and patent for utility model. Patent for an invention is valid for 20 years, while patent for a design and a utility model are valid for 10 years, in each case, starting from its respective application date. Any person or entity who uses patent without the consent of the patent owner, counterfeits a patented product, or engages in a patent infringement shall be held legally responsible and indemnify the patent owner, and may be subject to a fine and even a verdict of criminal penalty. After the granting of patent right for an invention or utility model, unless it is otherwise prescribed, no entity or individual is entitled to, without permission of the patentee, exploit the patent, that is, to make, use, promise the sale of, sell or import the patented product, or use the patented process to produce, use, promise the sale of, sell or import the product directly obtained from the patented process, for production or business purposes. After the granting of a patent for a design, no entity or individual shall, without permission of the patentee, exploit the patent, that is, to make, promise to sell, sell, or import the product incorporating the patented design, for production and business purposes. If an infringement on patent rights is constituted, the infringer shall be ordered to cease the infringement, take remedial measures and make compensations according to law.

Trademark Law

Pursuant to the Trademark Law of the People's Republic of China (中華人民共和國商標法) promulgated by the SCNPC on August 23, 1982 (effective on March 1, 1983) and amended on February 22, 1993, October 27, 2001 and August 30, 2013 (the latest revision effective on

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May 1, 2014) and the Regulation on the Implementation of the Trademark Law of the People's Republic of China (中華人民共和國商標法實施條例) (Order of the State Council No. 651) promulgated by the State Council on August 3, 2002 (effective on September 15, 2002) and amended on April 29, 2014 (the latest revision effective on May 1, 2014), a registered trademark means a trademark that has been approved by and registered with the trademark office, including marks on goods, marks for service, group logos, and certification marks. A registered trademark is valid for ten years starting from the date of registration approval. Any of the following acts shall be deemed as an infringement on the right to exclusive use of a registered trademark: (i) using a trademark identical with or similar to a registered trademark on identical or similar goods without authorisation; (ii) selling goods that infringe on the right to exclusive use of a registered trademark; (iii) forging or manufacturing the marks of a registered trademark without authorisation, or selling such marks; (iv) altering another's registered trademark without authorisation and selling goods bearing such altered trademark; (v) intentionally facilitating the infringement on or aiding other party in the infringement on another person's right to exclusive use of a registered trademark; and (vi) causing other damages to another person's right to exclusive use of a registered trademark.

Laws and Regulations Relating to Taxation

Consumption tax adjustment

On November 25, 2014, the MOF and the SAT jointly issued the Notice of on Adjusting Consumption Tax Policies (關於調整消費稅政策的通知) (Cai Shui [2014] No. 93) (effective on December 1, 2014), pursuant to which the item of vehicle tire tax is cancelled.

EIT

Pursuant to Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) promulgated by the SCNPC on March 16, 2007 (effective on January 1, 2008) and amended on February 24, 2017 (the latest revision effective on February 24, 2017), and the Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法實施條例) (Order of the State Council No. 512) issued by the State Council on December 6, 2007 (effective on January 1, 2008), the unified income tax rate of both domestic and foreign-funded enterprises is 25.0%. Under the Enterprise Income Tax Law (the "EIT Law", enterprises are divided into "resident enterprises" and "non-resident enterprises" in general. Pursuant to the EIT Law and the Regulation on its Implementation, enterprises established under the laws of foreign countries or regions with "de facto management bodies" in the PRC are considered as resident enterprises, and shall generally be subject to an EIT rate of 25.0% for their global income. The Regulation defines "de facto management body" as the "body that carries out substantial and overall management and control over the production and operation, personnel, accounting, and properties" of an enterprise. If an enterprise is considered as a PRC tax resident enterprise within the meaning of the above definition, it will be subject to a PRC EIT rate of 25.0% for its global income. According to the EIT Law of the PRC, eligible small low-profit enterprises are entitled to a reduced EIT rate of 20.0%. New and high-tech enterprises that the state intends to provide great support are entitled to a reduced EIT rate of 15.0%.

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Value-added tax

Pursuant to the Interim Regulation of the People's Republic of China on Value Added Tax (中華人民共和國增值稅暫行條例) (Order of the State Council No. 691) issued by the State Council on December 13, 1993 (effective on January 1, 1994) and amended on November 10, 2008, February 6, 2016 and November 19, 2017, and the Implementation Regulations of the Interim Regulation of the People's Republic of China on Value Added Tax (中華人民共和國增值稅暫行條例實施細則) (Order of the MOF No. 65) issued by the MOF and the SAT on December 18, 2008 (effective on January 1, 2009) and amended on October 28, 2011 (the latest revision effective on November 1, 2011), value-added tax is imposed on any entity or individual that sell goods or labor services of processing, repair or replacement, sales services, intangible assets, or immovables, or import goods in the PRC.

According to the Notice of on Issuing the Pilot Plan for Levying Value Added Tax in Lieu of Business Tax (關於印發《營業稅改徵增值稅試點方案》的通知) (Cai Shui [2011] No. 110) issued by the MOF and the SAT on November 16, 2011 (effective on the same day), the transformation from business tax to VAT took effect on January 1, 2012 for the pilot businesses in pilot areas, and two lower VAT rates at 11.0% and 6.0% were added to the prevailing VAT rates of 17.0%. The tax rate is 17% for lease of tangible assets, 11% for the transportation and construction industries, and 6% for certain other modern service industries. According to the Notice of on full launch of the Pilot Program of Replacing Business Tax with Value-Added Tax (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36) issued by the MOF and the SAT on March 23, 2016 (effective on May 1, 2016), the transformation from business tax to VAT would be fully implemented on a trial basis across the Country since May 1, 2016, with all the business tax payers, such as the players in construction industry, real estate industry, financial industry and life service industry, included into the scope of trial. Since then, all these tax payers would be required to pay VAT instead of business tax. Therefore, VAT is imposed by the SAT on all entities and individuals selling services, intangible assets or immovable assets within the territory of the PRC. According to the Notice on Adjusting Value-added Tax Rate (關於調整增值稅稅率的通知) (Cai Shui [2018] No. 32) issued by the MOF and the SAT on April 4, 2018 (effective on May 1, 2018), the tax rates for the taxable sales or goods import activity, which were subject to the tax rates of 17% and 11% respectively, are adjusted to 16% and 10% respectively.

VAT Export Rebate

According to the Measures for the Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation) (出口貨物退(免)稅管理辦法(試行)) (Guo Shui Fa [2005] No. 51) issued by the SAT on March 16, 2005 (effective on May 1, 2005), unless otherwise prescribed, after export declaration and financial accounting of sales, the VAT in relation to the goods exported by exporting agencies can be rebated or exempted upon approval by competent taxation authority.

According to the Notice on Increasing the Export Tax Rebate Rates of Value Added Tax on Labor-intensive Commodities (關於提高勞動密集型產品等商品增值稅出口退稅率的通知) (Cai Shui [2008] No. 144) issued by the MOF and the SAT on November 17, 2008 (effective on December 1, 2008), the tax rebate rate for some rubber products such as tires was raised from 5.0% to 9.0%. The adjustment to the export tax rebate rates was implemented from December 1, 2008.

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Pursuant to Environmental Protection Tax Law of the People's Republic of China (中華人民共和國環境保護稅法) (PRC President Order No. 61) promulgated by the SCNPC on December 25, 2016 (effective on January 1, 2018) and Regulation on the Implementation of the Environmental Protection Tax Law of the People's Republic of China (中華人民共和國環境保護稅法實施條例) (the State Council Order No. 693) promulgated by the State Council on December 25, 2017 (effective on January 1, 2018), within the territory of the People's Republic of China and other sea areas under the jurisdiction of the People's Republic of China, the enterprises, public institutions and other producers and operators that directly discharge pollutants to the environment shall be taxpayers of environmental pollution tax, and shall pay environmental pollution tax in accordance with laws.

Laws and Regulations against Unfair Competition

Pursuant to the Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法) promulgated by the SCNPC on September 2, 1993 (effective on December 1, 1993) and amended on November 4, 2017 (the latest revision effective on January 1, 2018), operators shall abide by the principle of voluntariness, equality, impartiality, honesty and good faith, and also adhere to laws and business ethics during market transactions and shall not conduct misleading behaviours which may confuse consumers to take their commodities as the commodities of others or lead consumers to believe that there is a connection between their commodities and other persons. Operators shall not use any property or other means of bribery to seek trading opportunities or competitive advantages, shall not carry out false or misleading commercial propaganda to deceive or mislead consumers, shall not infringe on trade secrets, shall not fabricate or disseminate false or misleading information, shall not damage the business reputation and the reputation of goods of competitors or use other illegal means to engage in market transactions that damage the legitimate rights and interests of other operators and disrupt social and economic order. Violators who cause harm to others shall bear civil liability according to law. Violators will also be fined, and if the situation is serious, their business licenses will be revoked, and if a crime is constituted, the violators shall be prosecuted for criminal liability.

Laws and Regulations Relating to Labour and Employment

Pursuant to the Labour Law of the People's Republic of China (中華人民共和國勞動法) promulgated by the SCNPC on July 5, 1994 (effective on January 1, 1995) and amended on August 27, 2009 (the latest revision effective on August 27, 2009), the employer shall establish and perfect rules and regulations in accordance with the law so as to ensure that the workers enjoy labour-related rights and fulfil labour-related obligations. A labour contract shall be concluded for the establishment of a labour relationship. Each employer shall ensure the safety and hygiene of workplace in accordance with laws and regulations and provide relevant training to employees.

Pursuant to the Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法) issued by the SCNPC on June 29, 2007 (effective on January 1, 2008) and amended on December 28, 2012 (the latest revision effective on July 1, 2013), an employer

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shall conclude a written labour contract with each employee. An employer is not allowed to make its employees to work overtime forcibly or in disguise, and an employer shall compensate its employees for overtime work. The Labour Contract Law also stipulates that the salary paid to each employee shall not be less than the minimum wage in the place where the employer is located.

Laws and Regulations Relating to Social Insurance and Housing Provident Fund

Pursuant to the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法) promulgated by the SCNPC on October 28, 2010 (effective on July 1, 2011), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) (Order of the State Council No. 259) issued by the State Council on January 22, 1999 (effective on the same day) and the Regulation on the Administration of Housing Accumulation Funds (住房公積金管理條例) (Order of the State Council No. 350) issued by the State Council on April 3, 1999 and amended on March 24, 2002 (the latest revision effective on March 24, 2002), state-owned enterprises, collectively-owned enterprises in cities and towns, foreign-funded enterprises, privately-owned enterprises in cities and towns, and other enterprises in cities and towns (premium paying enterprises) and their employees (premium paying individuals) shall pay social insurance premiums (including endowment insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and other benefit plans) and housing provident fund on time and in full amount. Such contributions shall be paid to the local administrative authorities and any employer who fails to pay the contributions in time may be fined and ordered to repay the outstanding contributions. If the overdue payment is not made within the required time, the relevant competent administrative authority may apply to the people's court for enforcement.

Laws and Regulations Relating to the Prevention and Control of Occupational Diseases

Pursuant to the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法) promulgated by the SCNPC on October 27, 2001 and amended on December 31, 2011 and July 2, 2016 and November 4, 2017 (the latest revision approved by the 13th Session of the Standing Committee of the 12th National People's Congress on November 4, 2017 and effective on November 5, 2017), where a new construction, an expansion, or a reconstruction project or a technical transformation or technology introduction project may cause any occupational diseases hazards, the construction entity shall conduct (i) pre-assessment of occupational diseases hazards at the feasibility study stage; (ii) assessment of the effects of occupational diseases hazard control before the acceptance check upon completion of a construction project; and (iii) acceptance check of protective facilities against occupational diseases. The facilities to prevent occupational diseases cannot be put into production and use until they have passed the acceptance check.

Pursuant to the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the employer shall: (i) establish and improve a responsibility system for the prevention and control of occupational diseases, strengthen the management of prevention and control of occupational diseases, improve their capabilities of prevention and

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control of occupational diseases, and assume responsibilities for their own occupational disease hazards; (ii) participate in work-related injury insurance according to law; (iii) adopt effective protective facilities against occupational diseases and provide employees for personal use with occupational disease protection items that shall meet the requirements for the prevention and control of occupational diseases; (iv) install alarms and provide on-spot rescue items, washing equipment, emergency evacuation exits, and necessary hazard buffer zones for toxic or harmful work sites where acute occupational injuries may occur; and (v) give true information to an employee on the potential occupational diseases hazards that may arise from the process of work and the consequences thereof as well as protective measures and treatments against occupational diseases when signing a labour contract with the employee, and expressly state such information in the labour contract, without any concealment or deception.

Trade Regulations in the United States

Import Tariffs and Quota Regulations

Manufactured goods imported from China are generally subject to the United States import duties. The PRC is subject to the general rates applicable to most countries with which the United States does not have any free-trade agreement in place. The duty rates are set forth in the Harmonized Tariff Schedule of the United States (“HTS”) which identifies applicable duties for the universe of imported goods, organised by class and specific article.

Our Group’s products would appear to fall within Chapter 40, heading “Rubber and articles thereof” and Chapter 87, heading “vehicles other than railway or tramway rolling stock, and parts and accessories thereof”, respectively. According to the current HTS (2018 Revision 3), the general rate for articles under this heading varies. In April 2018, the proposed amendments of HTS included a proposed list of products of the Chinese origin that would be subject to an additional duty of 25%. The proposed list of products does not include products that are supplied by our Group. Note that embargoes, anti-dumping duties, countervailing duties, and other very specific matters administered by the Executive Branch of the United States are not contained in the HTS.

There are a number of provisions of the United States trade law which may allow or result in modification of these duties. They include provision of general application and China-specific provisions.

Sections 201 through 204 of the Trade Act of 1974 provide the authority and procedures for the United States to take various actions to facilitate a domestic industry’s adjustment to import competition. Under such Sections, if the International Trade Commission determines that an article is being imported in such increased quantities as to threaten domestic producers of similar products, the United States may, among other things, increase or impose a duty, or a tariff-rate quota.

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In April 2018, the United States government published a proposed regulation entitled “Notice of Determination and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation” (the “**First Notice**”), which proposes to impose an additional 25% tariff on a list of products from China, including several types of pneumatic tires typically used on aircraft and tire-related products. The final list of products subject to this additional 25% tariff pursuant to the First Notice was published in June 2018 and the regulation went into effect on July 6, 2018. On July 11, 2018, the United States government published “Request for Comments Concerning Proposed Modification of Action Pursuant to Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation” (the “**Second Notice**”), which proposed to impose an additional 10% tariff on a further list of products imported from China. On August 1, 2018, the United States government indicated it is exploring the possibility of increasing the proposed tariff from 10% to 25%. The final list of products subject to this additional tariff pursuant to the Second Notice was announced on September 17, 2018 with the effective date of September 24, 2018. For details of the potential impact on our business, financial condition and results of operations, please refer to the paragraph headed “Risk Factors – Recent tariff imposed by the United States government on products imported from the PRC could materially and adversely affect our financial position and results of operations” in this prospectus.

Anti-Dumping Laws

There are a range of trade laws in the United States which address the issue of imports which may injure or threaten industries in the United States. Under anti-dumping laws (Title VII of the Tariff Act of 1930), the USITC, conducts investigations into whether dumping or subsidisation is occurring in products brought into the United States market. A significant proportion of such investigations in recent years have been in relation to imports from China.

Industries in the United States may petition the government for relief from imports that are sold in the United States at less than “normal value” (“**dumped**”) or which benefit from certain subsidies provided through foreign government programs. Under the law, the U.S. DOC determines whether the dumping or subsidising exists and, if so, the margin of dumping or amount of the subsidy, and the USITC determines whether there is any material injury or threat of injury to the domestic industry by reason of the dumped or subsidised imports. Where an investigation reveals that foreign products are being “dumped” into the United States or are benefiting from countervailable subsidies, and where the USITC also finds that an industry in the United States producing a “like product” is materially injured or threatened with material injury by reason of such imports (or the establishment of such industry is materially retarded), the U.S. DOC may impose appropriate anti-dumping duties and/or countervailing duties as a remedy for the dumping activities and subsidisation. When such an anti-dumping duty and/or countervailing duty order is imposed, the USCBP is instructed to assess special duties on products subject to the order at the time of their import.

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In addition to anti-dumping and subsidization investigations, there is a special PRC safeguards investigation which may also be conducted by USITC. Under this safeguard law, the USITC determines whether articles from China are being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products. If it makes an affirmative determination, it proposes a remedy. The USITC sends its report to the President of the United States and the United States Trade Representative. The President of the United States makes the final remedy decision.

SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisors, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the U.S., the EU, the UN and Australian sanctions in their entirety.

U.S.

Treasury regulations

The U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organized under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holder), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest – no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) – except pursuant to an authorization or license from OFAC.

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OFAC's comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on October 12, 2017). OFAC's limited programmes apply to Belarus, Burundi, Central African Republic, Democratic Republic of the Congo, Iraq, Lebanon, Liberia, Libya, Somalia, South Sudan, Ukraine/Russia, Venezuela, Yemen and Zimbabwe. OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

UN

The UN Security Council (the "UNSC") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UN Security Council has established 26 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

UN sanctions are imposed by the UNSC, usually acting under Chapter VII of the UN Charter (the "UN Sanctions"). Decisions of the UNSC bind members of the UN and override other obligations of UN member states.

EU

Under EU sanction measures, there is no "blanket" ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to EU sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to UN sanctions.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Our Group’s principal business is the design, manufacture and distribution of All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires that are sold under our “Prinx”, “Chengshan”, “Austone” and “Fortune” brands. The origin of our business can be traced to January 1976, when Rongcheng Rubber Factory, a state-owned enterprise, the predecessor of Chengshan Group which is one of our Controlling Shareholders, was established for, among others, the production of rubber products, steel cords, wire products, building materials, and chemicals (excluding hazardous chemicals). In 1980s, Rongcheng Rubber Factory started to sell its products to overseas market. In October 2000, Che Hongzhi became the person-in-charge of Rongcheng Rubber Factory. In December 2003, Rongcheng Rubber Factory was restructured and converted into Chengshan Group by way of management buy-out by management and employees. In December 2005, Prinx (Shandong) Tire, our principal operating subsidiary in the PRC, was established as a sino-foreign equity joint venture company. Through our three product lines, we have established a product portfolio that encompasses over 2,400 products that are used by a wide range of vehicles, including trucks, buses, passenger cars, agricultural and industrial vehicles, operating on diverse terrains. Prinx (Shandong) Tire has since developed into a modern enterprise focusing on research and development of tires utilizing advanced technology to meet customers’ needs.

As part of the Reorganization, Sinotruk Capital was introduced as our strategic investor in July 2015.

As part of the internationalisation of our operations, Prinx (Europe) was incorporated in Europe in May 2016 as our first overseas subsidiary to expand our global sales and marketing network.

In January 2017, Prinx (Qingdao) was established in the PRC to carry out research and development activities with a focus on tire technology, machinery and equipment, provide technical advice and services including technology transfer and serve as an additional sales centre for wholesale and retail of tires.

MAJOR MILESTONES

The following sets forth the major milestones during the course of the development of our business up to the Latest Practicable Date:

<u>Month/Year</u>	<u>Event</u>
January 1976	Rongcheng Rubber Factory, the predecessor of Chengshan Group which is one of our Controlling Shareholders, was established for, among others, the production of rubber products, steel cords, wire products, building materials, and chemicals (excluding hazardous chemicals)

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

<u>Month/Year</u>	<u>Event</u>
March 1990	Construction of the first domestic radial tire production line in the PRC
October 1992	Established and completed a 300,000 unit semi-steel radial tire production line in cooperation with Beijing Rubber Industry Design Academy
September 1997	The first production line of All Steel Radial Tires was established
December 2003	Rongcheng Rubber Factory was restructured and converted into Chengshan Group by way of management buy-out by management and employees
September 2004	We became the third largest tire manufacturer in the PRC and a “Three Crown” Enterprise in the tire industry in the PRC, which included an award of Famous Brand in March 2002, an award of China Top Brand in September 2004 and an award of Number One Brand for Quality and Reputation Comfortable to Users in China Tire Market in February 2004
December 2005	In order to develop international businesses, Cooper Chengshan (Shandong) Tire Company Limited* (庫珀成山(山東)輪胎有限公司) was established as a joint venture company with Cooper, for designing, developing, manufacturing, and sale of tires and providing related technical support and services
August 2006	Awarded best brand for customer satisfaction in the tire market in the PRC
June 2012	We were the sole authorized tires provider in the China Super Truck Racing. It was the 5th year that we sponsored this national event
July 2015	Introduction of Sinotruk Capital as a strategic investor
May 2016	Prinx (Europe) was incorporated to expand our global sales and marketing network
January 2017	Prinx (Qingdao) was established to carry out research and development activities

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE HISTORY

The following sets forth the corporate development of each member of our Group since their respective dates of incorporation.

Our Company

Our Company, formerly known as Prinx (Cayman) Holdings Limited (浦林(開曼)控股有限公司), was incorporated in the Cayman Islands with limited liability on May 22, 2015 and is the holding company of our subsidiaries. The principal business activity of our Company is investment holding. As at the date of incorporation, it had an authorized share capital of US\$50,000 of which one Share was issued at par value to an Independent Third Party who transferred such Share to Chengshan Group on June 23, 2015 at par.

As part of the Reorganization, our Company, Chengshan Group and Sinotruk Capital entered into the Pre-IPO Share Subscription Agreement on July 21, 2015, as amended. On October 29, 2015, upon the completion of the Pre-IPO Investment, 436,599,999 new ordinary Shares and 63,400,000 Series A Preferred Shares, representing approximately 87.32% and 12.68% of the total issued share capital of our Company as enlarged by the issuance of such Shares, were allotted and issued, credited as fully-paid, to Chengshan Group and Sinotruk Capital, respectively, at a consideration of approximately US\$193.2 million and US\$40.0 million, respectively. On January 1, 2018, all of the Series A Preferred Shares were converted into 63,400,000 ordinary Shares. Please see the paragraphs headed “Pre-IPO Investment” in this section for further details of the Pre-IPO Investment.

Please see the paragraphs headed “Reorganization” in this section for further details of the Reorganization steps.

Prinx Investment

Prinx Investment (formerly known as Prairie Investment Limited (普瑞利投資有限公司) (“**Prairie Investment**”)) is a limited liability company incorporated in Hong Kong on June 6, 2014 with an authorized share capital of US\$75,000 divided into 75,000 ordinary shares of US\$1.00 each. On the date of incorporation, Chengshan Trade, a wholly-owned subsidiary of Chengshan Group, held 75,000 shares in Prinx Investment, representing its entire issued share capital.

As part of the Reorganization, on September 8, 2015, our Company, as transferee, and Chengshan Trade, as transferor, entered into a share transfer agreement for the acquisition of the entire equity interest in Prinx Investment at a consideration of US\$75,000. The share transfer was completed on October 12, 2015 and our Company became the holding company of Prinx Investment.

Please see the paragraphs headed “Reorganization” in this section for further details of the Reorganization steps.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Prinx Chengshan (Shandong) Tire Company Limited

Cooper Chengshan (Shandong) Tire Company Limited* (庫珀成山(山東)輪胎有限公司) (“**Cooper Chengshan (Tire)**”) is a sino-foreign equity joint venture established in the PRC on December 29, 2005 with an initial registered capital of US\$43.8 million held by Cooper Tire Investment Holding (Barbados) Ltd., Shandong Chengshan Tire Company Limited and Joy Thrive Investments Limited as to 51%, 35% and 14%, respectively.

In August 2006, Shandong Chengshan Tire Company Limited transferred its 35% equity interest in Cooper Chengshan (Tire) to Chengshan Group at a consideration of RMB222,582,996.78, as a result of which Cooper Tire Investment Holding (Barbados) Ltd., Chengshan Group and Joy Thrive Investments Limited held 51%, 35% and 14% of the equity interest in Cooper Chengshan (Tire), respectively. The consideration was based on an independent valuation.

On June 20, 2007, Cooper Chengshan (Tire) and Cooper Chengshan (Shandong) Passenger Tire Company Ltd. (“**Cooper Chengshan (Passenger Tire)**”) entered into a merger agreement. The registered capital of Cooper Chengshan (Tire) was increased from US\$43.8 million to US\$76.8 million as a result of the consolidation of the registered capital of Cooper Chengshan (Passenger Tire) into Cooper Chengshan (Tire) after the merger and absorption of Cooper Chengshan (Passenger Tire) by Cooper Chengshan (Tire).

On October 29, 2008, Cooper Chengshan (Tire) passed a board resolution to change its Chinese name to Cooper Chengshan (Shandong) Tire Company Limited (固鉑成山(山東)輪胎有限公司) (“**Cooper Chengshan**”).

On January 5, 2010, Joy Thrive Investments Limited transferred its 14% equity interest in Cooper Chengshan to Cooper Tire Investment Holding (Barbados) Ltd. at a consideration of US\$17.92 million, as a result of which Cooper Tire Investment Holding (Barbados) Ltd. and Chengshan Group held 65% and 35% of the equity interest in Cooper Chengshan, respectively.

On November 10, 2014, Cooper Tire Investment Holding (Barbados) Ltd. transferred its 65% equity interest in Cooper Chengshan to Prairie Investment (currently known as Prinx Investment) at a consideration of US\$274,764,846.82, as a result of which Prairie Investment and Chengshan Group held 65% and 35% of the equity interest in Cooper Chengshan, respectively. The consideration was based on an independent valuation. On the same date, Cooper Chengshan passed a board resolution to change its name to Prinx Chengshan (Shandong) Tire Company Limited.

As part of the Reorganization, on September 9, 2015, Prinx Investment, as transferee, and Chengshan Group, as transferor, entered into a share transfer agreement for the acquisition of 35% of the equity interest in Prinx (Shandong) Tire at a consideration of US\$77.0 million. The consideration was based on an independent valuation. The share transfer was completed on September 23, 2015, upon which Prinx (Shandong) Tire became a wholly-owned subsidiary of Prinx Investment and was converted into a wholly foreign-owned enterprise.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The principal business of Prinx (Shandong) Tire is the design, development, manufacture, and sale of heavy load radial tires, ordinary structured tires, semi-steel radial passenger vehicle tires and semi-steel radial light truck tires and related products, and to provide technical support and services for such products.

Please see the paragraphs headed “Reorganization” in this section for further details of the Reorganization steps.

Prinx (Europe)

Prinx (Europe) is a limited liability company incorporated in the Slovak Republic on May 13, 2016 with a registered capital of EUR400,000 as a wholly-owned subsidiary of Prinx Investment.

The principal business of Prinx (Europe) is sale, distribution and marketing of tires. Upon completion of the Reorganization, Prinx (Europe) became an indirect wholly-owned subsidiary of our Company.

Prinx (Qingdao)

Prinx (Qingdao) is a limited liability company established in the PRC on January 12, 2017 with an initial registered capital of RMB10.0 million as a wholly-owned subsidiary of Prinx (Shandong) Tire.

The principal business of Prinx (Qingdao) is carrying out research and development activities with a focus on tire technology, machinery and equipment, providing technical advice and services including technology transfer and serving as an additional sales centre for wholesale and retail of tires.

Chengshan (Malaysia)

Chengshan (Malaysia) is a limited liability company established in Malaysia on January 25, 2017 with an initial authorized share capital of RM400,000 divided into 400,000 ordinary shares of RM1.00 each. On the date of incorporation, a total of two shares were allotted and issued at par value to the initial subscribers, each being an Independent Third Party, which were subsequently transferred to Chengshan Group on March 10, 2017 at par value.

On February 5, 2018, two shares, four shares and two shares were allotted and issued at par value to Chengshan Group, Prinx (Shandong) Tire and Prinx Investment, respectively. As a result, our Group owns 60% of the equity interest in Chengshan (Malaysia) and Chengshan Group owns the remaining 40% of the equity interest in Chengshan (Malaysia).

On March 27, 2018, our Group transferred four shares and two shares from Prinx (Shandong) Tire and Prinx Investment in Chengshan (Malaysia) to Chengshan Group, respectively. Upon completion of the transfer, Chengshan (Malaysia) became a wholly-owned subsidiary of Chengshan Group.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The principal business of Chengshan (Malaysia) is the manufacturing, distribution and trading of tires.

Prinx (R&D)

Prinx (R&D) is a limited liability company established in the PRC on September 26, 2017 with an initial registered capital of RMB10,000,000 and its equity interests are held by Chengshan Group, Prinx (Shandong) Tire, Prinx (Qingdao) and three Independent Third Parties as to 32.5%, 30%, 30%, and 7.5%, respectively.

On December 11, 2017, Chengshan Group transferred its 32.5% of the equity interest in Prinx (R&D) to Prinx (Shandong) Tire at a consideration of RMB3,250,000, based on the amount of registered capital, as a result of which our Group held an aggregate of 92.5% of the equity interest in Prinx (R&D) through Prinx (Shandong) Tire and Prinx (Qingdao).

The principal business of Prinx (R&D) is carrying out research and development on tire technology and equipment, and providing technical services to customers.

Qingdao Zhianda

Qingdao Zhianda is a limited liability company established in the PRC on March 8, 2018 with an initial registered capital of RMB76,800,000 and is an indirect wholly-owned subsidiary of our Company.

The principal business of Qingdao Zhianda is sale of tires. As at the Latest Practicable Date, Qingdao Zhianda has not commenced any business activity.

PRE-IPO INVESTMENT

Our Company, Chengshan Group and Sinotruk Capital entered into the Pre-IPO Share Subscription Agreement for the subscription of new ordinary Shares in our Company by Chengshan Group, and the subscription of new Series A Preferred Shares in our Company by Sinotruk Capital. Immediately upon completion of the Pre-IPO Share Subscription, the Company was beneficially owned as to 87.32% and 12.68% by Chengshan Group and Sinotruk Capital, respectively. Our Company and Sinotruk Capital also entered into the Pre-IPO Shareholders Agreements to regulate the business, affairs and management of our Group and the relationship between Sinotruk Capital and our Company and the conversion of Series A Preferred Shares into ordinary Shares.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Background of the Pre-IPO Investor

Sinotruk Capital

Sinotruk Capital is a company incorporated in Hong Kong on December 10, 2013 with limited liability. It is wholly-owned by Sinotruk International which in turn is wholly-owned by Sinotruk (Hong Kong) Limited, a company listed on the Hong Kong Stock Exchange (stock code: 3808). To the best knowledge and belief of the Directors after reasonable enquiry, Sinotruk Capital is an investment holding company and was not involved in other investment or any business that competes or may compete with our business as at the Latest Practicable Date.

Save as disclosed in this prospectus and Mr. Chen Yansheng, being our non-executive Director, who was nominated by Sinotruk Capital, Sinotruk Capital does not have any other relationship, whether present or past, with our Group, our Directors, our senior management of the Group, any connected persons of our Company and any of their respective associates.

Investment of the Pre-IPO Investor in our Company

Date of the Pre-IPO Share Subscription Agreement, as amended and supplemented	July 21, 2015
Date of Pre-IPO Shareholders Agreement, as amended and supplemented	July 21, 2015
Number of Shares acquired by the Pre-IPO Investor under the Pre-IPO Share Subscription Agreements	63,400,000 Series A Preferred Shares which were converted into ordinary Shares on January 1, 2018
Amount of consideration	US\$40,000,000 in cash
Payment and completion date of the Pre-IPO Investment	October 29, 2015
Effective cost per Share paid	HK\$4.95
Discount to the mid-point of the indicative Offer Price range (i.e. HK\$6.70 per Offer Share)	Approximately 26.12% to the mid-point of the indicative range of the Offer Price
Use of proceeds from the Pre-IPO Investment	We fully utilized the proceeds from the Pre-IPO Investment for the Reorganization, including but not limited to the transactions relating to share subscription of our Company and Prinx (Shandong) Tire

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shareholding in our Company upon completion of the Pre-IPO Investment	12.68%
Number of Shares and percentage of shareholding to be held by the Pre-IPO Investor upon the Listing	63,400,000 Shares, representing 9.98% of the total issued Shares of our Company (without taking into account any shares which may be issued pursuant to the exercise of the Over-allotment Option)
Lock-up period	Six months commencing from the Listing Date
Strategic benefits of the Pre-IPO Investor brought to our Company	At the time of the Pre-IPO Investment, our Directors were of the view that our Company could benefit from the additional capital that would be provided by our Pre-IPO Investor's investment in our Company. We believe that the investment can strengthen the share capital base and diversify the shareholders' portfolio of our Group, facilitate our tire business expansion and broaden our customer base, and enhance our accounting and financial management
Right to nominate director and participation in the Board and Board committee	Pre-IPO Investor has the right to nominate one director to the Board until immediately prior to the completion of a Qualified IPO (as defined in the Pre-IPO Shareholders Agreements)
Pre-emptive right	Prior to the completion of a Qualified IPO, the Pre-IPO Investor shall have the right to subscribe for any new securities in proportion to their shareholding percentage in our Company. The pre-emptive right was terminated on January 1, 2018. Our Company shall not issue any such new securities unless our Company has made an offer to the Pre-IPO Investor
Redemption right	The Pre-IPO Investor shall have the right of redemption in the event that a Qualified IPO does not occur by October 29, 2018
Restrictions on transfer	Until the earlier of (i) the fourth anniversary of the completion date, and (ii) the completion of a Qualified IPO, no Pre-IPO Investor may, directly or indirectly, without the prior written consent of the other party to the Pre-IPO Share Subscription Agreements, transfer any equity securities, except in accordance with the Pre-IPO Shareholders Agreements

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Right of first refusal	Each of the Pre-IPO Investor and Chengshan Group agrees that, subject to the Pre-IPO Shareholders Agreements, if the Pre-IPO Investor desires to transfer all or part of its shares of our Company to a third party, any other party to the Pre-IPO Share Subscription Agreements shall have a right of first refusal to purchase such shares
Public float	The Shares held by Sinotruk Capital are considered as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

Save as mentioned above, no other special rights have been granted to the Pre-IPO Investor under the Pre-IPO Share Subscription Agreements or the Pre-IPO Shareholders Agreements and all the special rights mentioned above shall automatically cease to have any effect on the Listing Date.

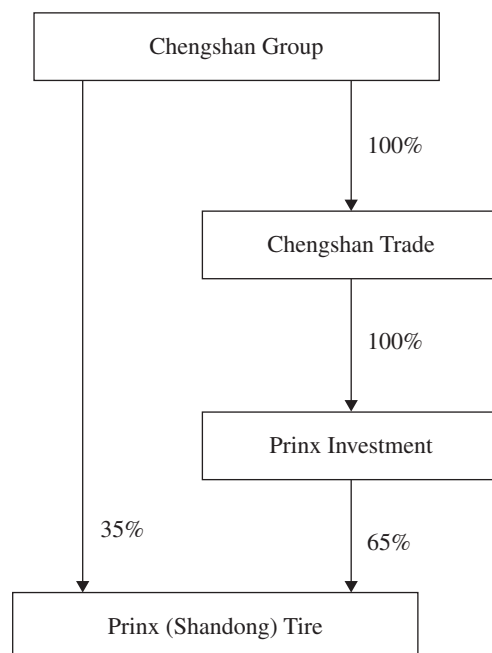
The consideration paid by the Pre-IPO Investor in the Pre-IPO Investment (hence the Shares upon Listing) was determined based on arm's length negotiation and by reference to the financial position and net asset value of our Group at the time, the investment risk assumed by the Pre-IPO Investor in investing in an unlisted company, the strategic benefits which would be brought by the Pre-IPO Investment to our Group and taking into account the six-month lock-up period undertaken by the Pre-IPO Investor commencing on the Listing Date. The Pre-IPO Investment was properly and legally completed and the consideration has been duly settled.

The Sole Sponsor's confirmation

The Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the "Interim Guidance on Pre-IPO Investments" (HKEx-GL29-12) issued by the Hong Kong Stock Exchange in January 2012 and updated in March 2017 and the "Guidance on Pre-IPO Investments" (HKEx-GL43-12) issued by the Hong Kong Stock Exchange in October 2012 and updated in March 2017.

REORGANIZATION

Our Group underwent the Reorganization in preparation for the Pre-IPO Investment and the Listing. The following chart sets forth the corporate structure of our Group immediately prior to the Reorganization.



1. Incorporation of our Company

Our Company was incorporated by Chengshan Group in the Cayman Islands with limited liability on May 22, 2015. It is an investment holding company and is the holding company of our subsidiaries. As at the date of incorporation, it had an authorized share capital of US\$50,000. On the date of incorporation, one Share was issued at par value to an Independent Third Party who transferred such Share to Chengshan Group on June 23, 2015 at par.

2. Subscription of 436,599,999 ordinary Shares in our Company by Chengshan Group

On July 21, 2015, Chengshan Group subscribed for 436,599,999 ordinary Shares in our Company at a consideration of US\$193,195,000. The said subscription was completed on October 29, 2015. After such share subscription, 436,600,000 ordinary Shares, representing approximately 87.32% equity interest in our Company, were held by Chengshan Group.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

3. Subscription of 63,400,000 Series A Preferred Shares in our Company by Sinotruk Capital

On July 21, 2015, Sinotruk Capital subscribed for 63,400,000 Series A Preferred Shares in our Company at a consideration of US\$40,000,000. The said subscription was completed on October 29, 2015. After such share subscription, approximately 12.68% of the equity interest in our Company was held by Sinotruk Capital. On January 1, 2018, all of the Series A Preferred Shares were converted into 63,400,000 ordinary Shares.

4. Transfer of 35% of the equity interest in Prinx (Shandong) Tire from Chengshan Group to Prinx Investment

On September 9, 2015, Prinx Investment, as transferee, and Chengshan Group, as transferor, entered into a share transfer agreement for the transfer of 35% of the equity interest in Prinx (Shandong) Tire at a consideration of US\$77.0 million. Chengshan Group transferred its 35% equity interest in Prinx (Shandong) Tire to Prinx Investment. The said transfer was completed on September 23, 2015. After such transfer, Prinx (Shandong) Tire was wholly-owned by Prinx Investment.

5. Transfer of the entire equity interest in Prinx Investment from Chengshan Trade to our Company

On September 8, 2015, our Company, as transferee, and Chengshan Trade, as transferor, entered into a share transfer agreement for the transfer of the entire equity interest in Prinx Investment at a consideration of US\$75,000. On October 12, 2015, Chengshan Trade transferred its 100% equity interest in Prinx Investment to our Company and the said transfer was completed on the same date. After such transfer, Prinx Investment was wholly-owned by our Company.

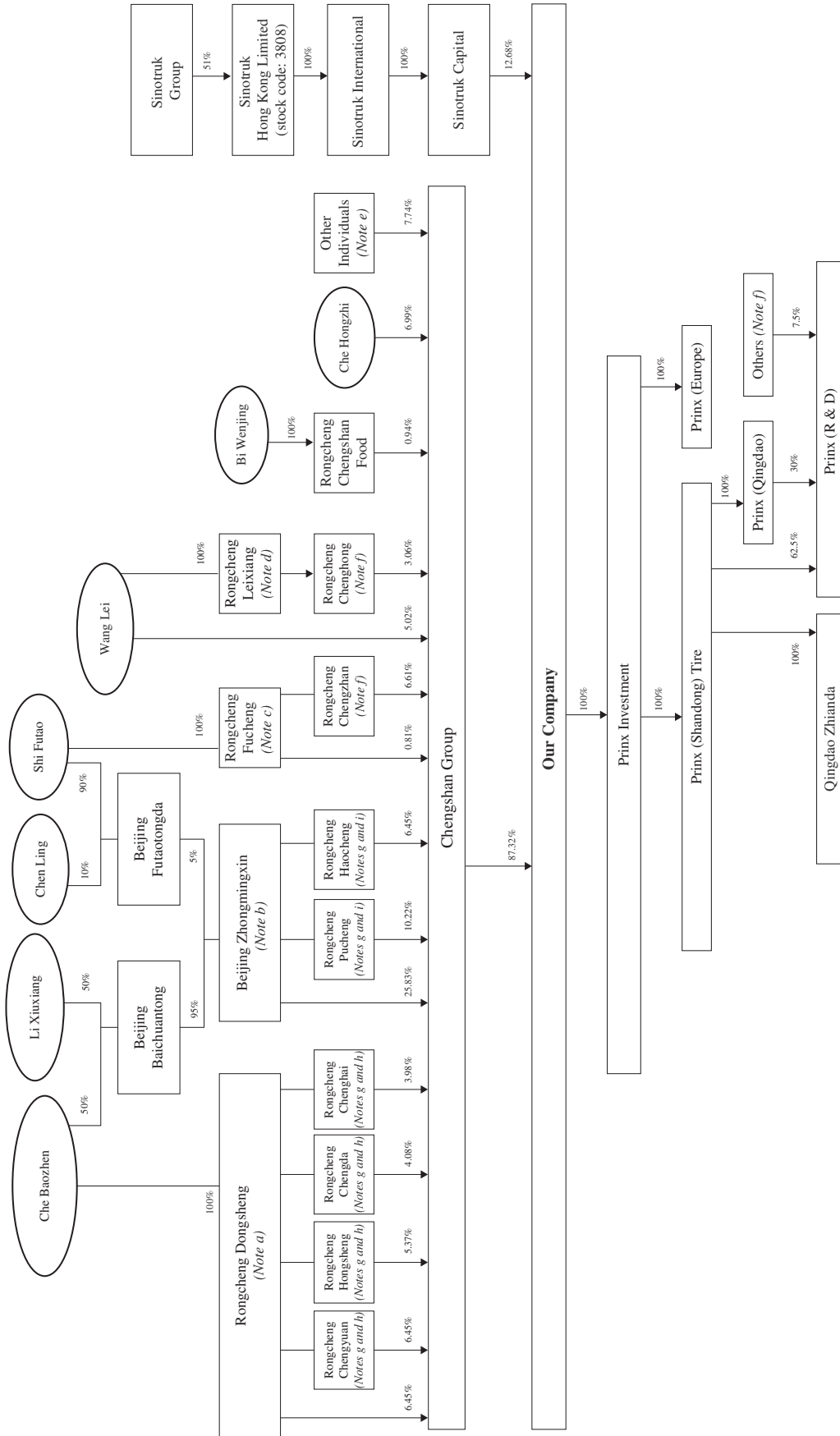
Our PRC Legal Advisors confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganization have been obtained, and the Reorganization has complied with all applicable laws and regulations of the PRC.

M&A Rules

The Rules on Mergers and Acquisition of Domestic “Provisions on the Takeover of Domestic Enterprises by Foreign Investors” (關於外國投資者併購境內企業的規定) (“**M&A Rules**”) which was promulgated by MOFCOM, the State Asset Supervision and Administration Commission, the China Securities Regulatory Commission (“**CSRC**”), the State Administration of Taxation, the State Administration for Industry and Commerce and SAFE became effective on September 8, 2006, and revised on June 22, 2009, and applies in the event that foreign investors acquire PRC enterprises. Our PRC Legal Advisers have advised that the M&A Rules are not applicable to our Company as (i) Prinx (Shandong) Tire was established on December 29, 2005 as a sino-foreign equity joint venture, which was established prior to the effective date of the M&A Rules; and (ii) pursuant to the Guidebook to Management of Foreign Investment Access (外商投資准入管理指引手冊) issued by MOFCOM promulgated in December 2008, no reference will be made to the M&A Rules when a Chinese investor transfers its equity interest in a foreign-invested enterprise to a foreign party, whether or not both of the parties are connected to each other or the foreign party is an existing shareholder or a new investor.

OUR GROUP STRUCTURE

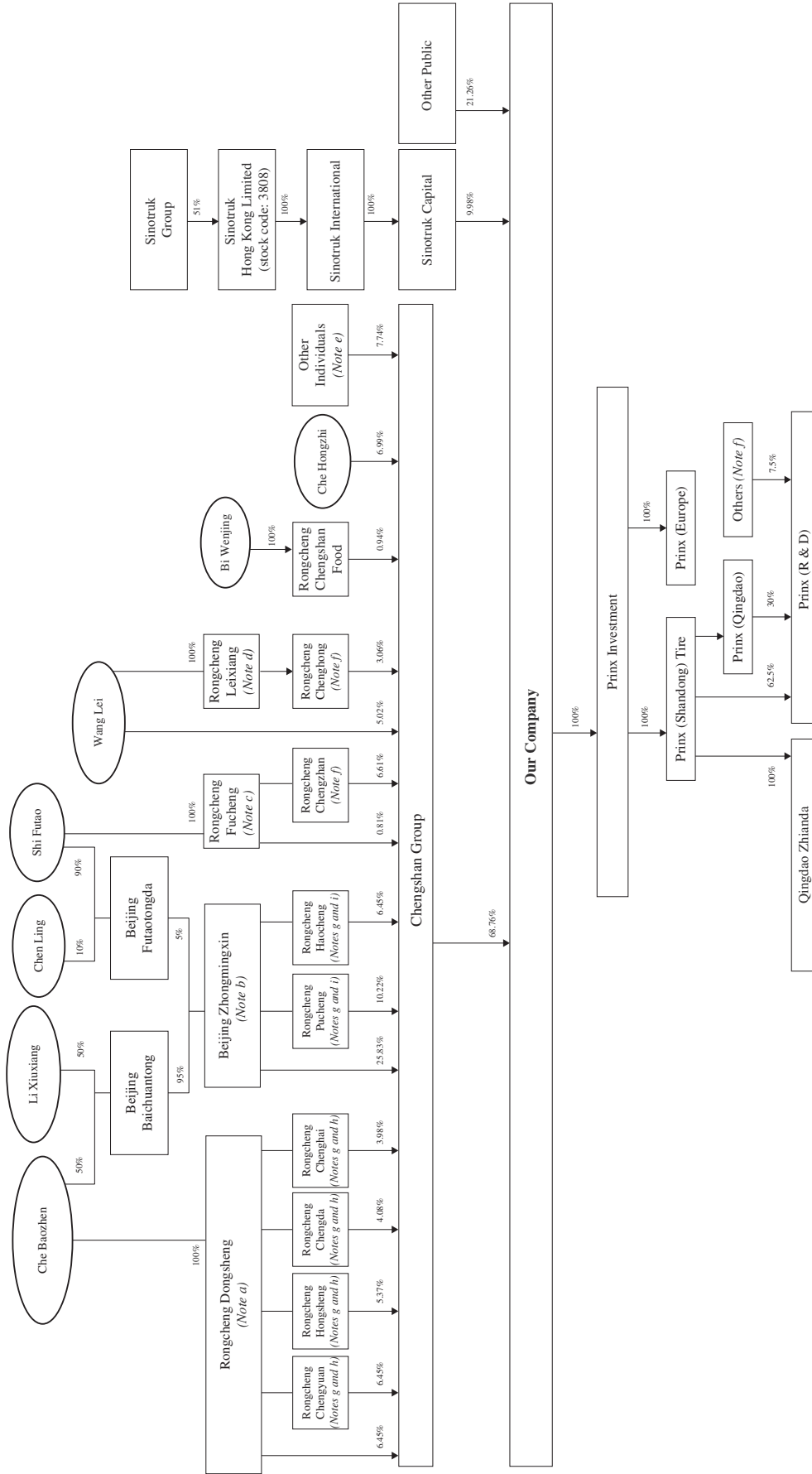
The following diagram shows the corporate structure and shareholdings of our Group as at the Latest Practicable Date:



Notes:

- a. Rongcheng Dongsheng is the general partner of each of Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda and Rongcheng Chenghai.
- b. Beijing Zhongmingxin is the general partner of each of Rongcheng Pucheng and Rongcheng Haocheng.
- c. Rongcheng Fucheng is the general partner of Rongcheng Chengzhan.
- d. Rongcheng Leixiang is the general partner of Rongcheng Chenghong.
- e. 7.74% of the equity interest of Chengshan Group are held by 12 other individuals. Each of these 12 individuals owns less than 1% of the equity interest in Chengshan Group, respectively. These individuals are Independent Third Parties.
- f. 7.5% of the equity interests of Primx (R&D) are held by MESNAC (軟控股份有限公司), Qingdao Wu Shi Environmental Technology Company Limited* (青島吳氏環保科技有限公司) and Qingdao Leading New Materials Innovation Park Development Company Limited* (青島領軍新材料科技創新園發展有限公司). Each of the three companies owns 2.5% of the equity interest in Primx (R&D), respectively, and are Independent Third Parties.
- g. On July 5, 2016, eight limited partnerships including Rongcheng Pucheng, Rongcheng Haocheng, Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Chengzhan and Rongcheng Chenghong became shareholders of Chengshan Group by way of capital contribution. The registered capital of Chengshan Group was increased from RMB100,000,000 to RMB186,000,000.
- h. On March 5, 2018, the general partner of each of Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda and Rongcheng Chenghai was changed from Rongcheng Zhencui Business Information Consultancy Company Limited* (榮成臻萃商貿信息諮詢有限公司), which is owned as to 85.71% by Mr. Che Baozhen and 14.29% by Ms. Bi Wenjing to Rongcheng Dongsheng.
- i. On March 5, 2018, the general partner of each of Rongcheng Pucheng and Rongcheng Haocheng was changed from Rongcheng Fucheng to Beijing Zhongmingxin.

The following diagram shows the corporate structure and shareholdings of our Group immediately after completion of the Global Offering (without taking into account of any shares which may be issued pursuant to the exercise of the Over-allotment Option):



Notes:

- a. Rongcheng Dongsheng is the general partner of each of Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda and Rongcheng Chenghai.
- b. Beijing Zhongmingxin is the general partner of each of Rongcheng Pucheng and Rongcheng Haocheng.
- c. Rongcheng Fucheng is the general partner of Rongcheng Chengzhan.
- d. Rongcheng Leixiang is the general partner of Rongcheng Chenghong.
- e. 7.74% of the equity interest of Chengshan Group are held by 12 other individuals. Each of these 12 individuals owns less than 1% of the equity interest in Chengshan Group, respectively. These individuals are Independent Third Parties.
- f. 7.5% of the equity interests of Primx (R&D) are held by MESNAC (軟控股份有限公司), Qingdao Wu Shi Environmental Technology Company Limited* (青島吳氏環保科技有限公司) and Qingdao Leading New Materials Innovation Park Development Company Limited* (青島領軍新材料科技創新園發展有限公司). Each of the three companies owns 2.5% of the equity interest in Primx (R&D), respectively, and are Independent Third Parties.
- g. On July 5, 2016, eight limited partnerships including Rongcheng Pucheng, Rongcheng Haocheng, Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Chengzhan and Rongcheng Chenghong became shareholders of Chengshan Group by way of capital contribution. The registered capital of Chengshan Group was increased from RMB100,000,000 to RMB186,000,000.
- h. On March 5, 2018, the general partner of each of Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda and Rongcheng Chenghai was changed from Rongcheng Zhencui Business Information Consultancy Company Limited* (榮成臻萃商貿信息諮詢有限公司), which is owned as to 85.71% by Mr. Che Baozhen and 14.29% by Ms. Bi Wenjing to Rongcheng Dongsheng.
- i. On March 5, 2018, the general partner of each of Rongcheng Pucheng and Rongcheng Haocheng was changed from Rongcheng Fucheng to Beijing Zhongmingxin.

OVERVIEW

We are a leading domestic tire manufacturer in the PRC Commercial All Steel Radial Tires replacement market and a major domestic tire manufacturer in the PRC. Our revenue grew by a CAGR of approximately 17.2% from 2015 to 2017, which was higher than those for the global and PRC vehicle tire markets, for the same period, which was 3.0% and 9.5%, respectively according to Frost & Sullivan. In particular, from 2015 to 2017, revenue we derived from sales of All Steel Radial Tires grew by a CAGR of 18.1%, which was materially higher than the industry average of 2.5%, according to Frost & Sullivan. Moreover, while we have expanded our production capacity over the Track Record Period, our production facilities have continued to operate at close to full capacity to meet the increase in demand from our customers. Our major market rankings in 2017 according to Frost & Sullivan, are as below:

- We were the 5th largest domestic All Steel Radial Tires manufacturer in the PRC and the 3rd within the replacement tire segment of such market in terms of sales revenue and volume in 2017.
- We are a major domestic All Steel Radial Tires exporter with leading export volumes to various markets. We ranked amongst the top five domestic All Steel Radial Tire exporters to each of the United States, Thailand, and Malaysia markets, respectively.

We have four well-known tire brands, namely, “Prinx”, “Chengshan”, “Austone” and “Fortune”. Our “Prinx” brand is dedicated to medium to premium tires we produced. Our brands have consistently been recognized for their quality and high price-performance ratio, as evidenced by us being named as “Top Ten Influential PRC Tire Brand” in an evaluation event organized by the World Brand Lab in 2016 and 2017, “Top Ten Influential Tire Brands in the PRC” in 2005 and again in 2015, “Top 500 Most Valuable Brands in the PRC” in 2004, and receiving awards and accreditation granted by several vehicle manufacturers in the PRC during the Track Record Period. For further details, please see subsection “– Awards and Accreditation”. Brand recognition is essential in the tire industry because vehicle manufacturers and consumers prioritize safety and quality when selecting tires.

We operate under a “customer first and quality driven” principle and our quality control system have been awarded with international certification of IATF 16949 standard in August 2017. Through our stringent quality control process, we attained a warranty claim rate of 0.86% in 2017. According to Frost & Sullivan, the PRC industry average taking into account a wide spectrum of tire manufacturers is 1.32% for the same year. In addition, to ensure efficient utilization of resources and to minimize our operational cost, we regularly adopt new or revised lean six sigma executive procedures that are designed to reach operational and/or financial targets, such as reducing pollution or cost. We believe such effort has been instrumental in (i) us building a PRC-leading efficient operation that is ranked first nationally in terms of energy consumption per unit of revenue amongst the Semi-Steel Radial Tires manufacturers and All Steel Radial Tires manufacturers, respectively according to Frost & Sullivan, and (ii) us being accredited with energy conservation awards granted by the Shandong Province and certifications for the successful adoption of information technology in operation from MIIT in 2017.

BUSINESS

We have a well-established and comprehensive global sales network that covers major tire markets. As of March 31, 2018, our products are sold all over the world through more than 400 distributors. Also, leveraging our established direct sales channels with some of the vehicle manufacturers, including Sinotruk Group, Jiangling Auto, Dongfeng Liuqi, China FAW, SAIC Hongyan and Qingling Auto, our products are utilized on new vehicles produced by 24 vehicle manufacturers. Our products have received certifications from relevant authorities from all of the major tire markets in the world, including DOT for the United States, ECE and R117 for the European Union. Moreover, we believe our comprehensive global sales network allows us to diversify the risk of over reliance on a particular market and/or a specific group of customers and benefit from the increase in global tire demand. We have built a strong revenue stream from sales to distributors in the replacement tire market as such market is less cyclical, while at the same time established relationships with vehicle manufacturers to tap into markets with better margins. Over the years, we have also successfully implemented new sales models that are supported by our aftersales team to better meet the demands of our customers. We believe such sales model has allowed us to provide more value-added service to our customers and enhanced our understanding of the relevant end-user market, which in turn, have helped to increase customer loyalty and helped us expand into targeted markets.

For the years ended December 2015, 2016, 2017 and the three months ended March 31, 2018, our revenue was RMB3,521.9 million, RMB3,821.7 million, RMB4,840.4 million and RMB1,355.7 million, respectively. We derived a substantial portion of our revenue from sales of All Steel Radial Tires and Semi-Steel Radial Tires business, whereby sales contributed from the two businesses segment aggregate constituted approximately 93.8%, 94.4%, 95.7% and 97.6% of our total revenue for each of the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively.

OUR STRENGTHS

We believe that our success and our ability to capitalize on future growth opportunities are attributable to our following strengths:

We are a well-established domestic tire manufacturer with a proven track record of high growth. We are also a leading domestic tire manufacturer in the PRC's Commercial All Steel Radial Tire replacement market well positioned to benefit from the PRC tire market growth.

We are a leading domestic tire manufacturer in the PRC Commercial All Steel Radial Tires replacement market and a major domestic tire manufacturer in the PRC. We are well-established in the PRC All Steel Radial Tires replacement market, which according to Frost & Sullivan has a higher growth rate than the overall PRC tire market. Our revenue grew by a CAGR of approximately 17.2% from 2015 to 2017, and was higher than those for the global and the PRC vehicle tire markets for the same period, which was 3.0% and 9.5% respectively. In particular, from 2015 to 2017, revenue we derived from sales of All Steel Radial Tires grew by a CAGR of 18.1%, which was materially higher than the industry average of 2.5%, according to Frost & Sullivan. Moreover, while we have expanded our production capacity over the Track Record Period, our production facilities have continued to operate at

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close to full capacity to meet the increase in demand from our customers. We believe such proven track record of high growth is attributable to our ability to consistently deliver quality price-performance ratio products that meets the increase in demand from our customers.

Our major market rankings in 2017 are as below:

- We were the 5th largest domestic All Steel Radial Tires manufacturer in the PRC and the 3rd within the replacement tire segment of such market in terms of sales revenue and volume in 2017.
- We are a major domestic All Steel Radial Tires exporter with leading export volumes to various markets. We ranked amongst the top five domestic All Steel Radial Tire exporters to each of the United States, Thailand, and Malaysia markets, respectively.

The history of our Chengshan brand can be traced back to the 1980s, and we have developed four major well-known tire brands, namely, “Prinx”, “Chengshan”, “Austone” and “Fortune”. Our “Prinx” is dedicated to medium to premium tires we produced. Our brands have consistently been recognized for their quality and high price-performance ratio. As a result, we were named as “Top Ten Influential PRC Tire Brand” in an evaluation event organized by the World Brand Lab in 2016 and 2017, “Top Ten Influential Tire Brands in the PRC” by the PRC tire in 2005 and again in 2015, “Top 500 Most Valuable Brands in the PRC” in 2004, and receiving awards and accreditation from several vehicle manufacturers in the PRC during the Track Record Period. For further details, please see subsection “– Awards and Accreditation”. Brand recognition is essential in the tire industry because vehicle manufacturers and tire consumers prioritize safety and quality when selecting tires. In particular, in the replacement tire market, where consumers have a variety of tire selections, we believe our brand recognition and our ability to develop and produce a portfolio of products that deliver high performance, yield good price-performance ratio and that could be applied in different climate zones under unpaved travel conditions separates us from our competitors.

We believe we are well positioned to benefit from the PRC tire market growth. According to Frost & Sullivan, the fixed asset investment in road transportation is expected to increase to approximately RMB7.0 trillion in 2021 from approximately RMB4.0 trillion in 2017, representing a CAGR of 14.9%. Such development is beneficial to the expansion of the logistics market, which in turn is expected to lead to an increase in demand for All Steel Radial Tires. Commercial and industrial vehicles continue to be critical to the PRC logistics and infrastructure industry, and All Steel Radial Tires serve as a key component to such vehicles. As such, we believe our market position and established customer base shall allow us to benefit from such market growth.

Our market position is also protected by entry barriers for tire production, such as high capital and technical thresholds, high energy demand and stringent and continuously needs for environmental and safety evaluations. In particular, according to the Tire Industrial Policies issued by the MIIT, all new tire manufacturers in the PRC must have a production capacity of no less than 1.2 million radial tires per annum. We believe our current production scale and experience offers protection to our market position.

Comprehensive and stringent quality control and production management system.

We operate under a “customer first and quality driven” principle and our quality control system has received certifications of IATF16949 standard in August 2017. Our quality control system covers the entire production processes. We have established quality assurance standards and procedures at each critical step from the material procurement to finished product testing. We also conduct product testing at our CNAS certified facility, covering the whole product development cycle, starting from product design and through product road testing. Through our stringent quality control process, we attained a warranty claim rate of 0.86% in 2017. According to Frost & Sullivan, the PRC industry average, taking into account a wide spectrum of tire manufacturers, is 1.32% for the same year. At the same time, we believe our quality-consistent products helped us build a strong customer base and enhanced our customer loyalty. Customer recognition is reflected in the quality accreditation we received from government entities and leading vehicle manufacturers in the PRC. Please see “– Awards and Accreditations” for further details.

In addition, to ensure efficient utilization of resources and to minimize our operational cost, we regularly adopt new or revised lean six sigma procedures that are designed to reach operation and/or financial targets, such as reduce pollution or cost. Key personnel are required to participate in relevant lean six sigma training, and we emphasize on cross-departmental collaboration in achieving the set operational and/or financial targets. Such quantifiable operational measurement has helped us attain considerable cost reductions and instilled in relevant personnel the importance of efficient use of resource. Moreover, our operational procedure emphasizes on executing preventive measures to maintain our production equipment and avoid production disruption. We have installed equipment to regularly measure the precision and condition of our key equipment and implemented an energy management system to monitor, manage and analyze our energy consumption. We believe such effort helped us build a PRC-leading efficient operation that is ranked first nationally in terms of energy consumption per unit of revenue amongst the Semi-steel Radial Tires manufacturers and All Steel Radial Tires manufacturers, respectively, according to Frost & Sullivan. As a result, we were accredited with energy conservation awards granted by the Shandong Province and certifications for the successful adoption of information technology in operation from MIIT in 2017.

Well-established and comprehensive global sales network that covers all major tire markets supported by an experienced sales team.

We have a well-established and comprehensive global sales network that covers major tire markets. As of March 31, 2018, our products are sold nationally in the PRC through more than 240 distributors. We established direct sales channels with some of the vehicle manufacturing companies, including Sinotruk Group, Jiangling Auto, Dongfeng Liuqi, China FAW, SAIC Hongyan, and Qingling Auto, and our products are applied to new vehicles produced by 24 vehicle manufacturers. Moreover, we have been invited to participate in the new tire product designs and manufacturing process of vehicle manufacturers in the PRC. We believe that such invitation evidences our product quality and brand recognition, as vehicle manufacturers only source from quality assured tire brands. At the same time, we believe the opportunity to join the early stages of product development strengthens our relationship with our customers and enhances our customer loyalty.

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Outside of the PRC, our products were sold through more than 150 distributors in approximately 130 countries globally as of March 31, 2018. Our products have received certifications from relevant authorities from the major tire markets in the world, including DOT for the United States, ECE and R117 for the European Union, SNI for Indonesia, SIRIM for Malaysia, INMETRO for Brazil and GSO for the Gulf Region, and are well received in such overseas markets for its quality. We are also a PRC exporter of All Steel Radial Tires to Thailand, the United States, Malaysia, and also Africa and Middle-East, regions which have higher growth rate than the overall tire market, according to Frost & Sullivan.

We have built a strong revenue stream from sales to distributors in the replacement tire market as such market is less cyclical, while at the same time established relationship with vehicle manufacturers to tap into markets with better margins. Our dual-channel sales model allows us to benefit from the increase in demand for new tires when vehicle manufacturing cycles trend upwards, and positions us well to continue to grow through our sales in the replacement tires market as the average vehicle life increases. Moreover, we believe our global sales network allows us to diversify the risk of over reliance on a particular market and/or a specific group of customers and benefit from the increase in global tire demand. Over the years, we have also successfully implemented new sales models that are supported by our aftersales team to better meet the demands of our customers. Selecting a suitable tire not only ensures safety and comfort but is also essential to vehicle performance and prolonging the lifespan of a tire. With a view to better serving our customers' needs, we began to supply tires with value-added services that include product installation, testing and inspection and maintenance, to certain customers during the Track Record Period. We believe such sales model has allowed us to provide more value-added service to our customers and enhanced our understanding of the relevant end-user market, which in turn, have helped us increase customer loyalty and expand into targeted markets.

Advanced research and development capability and extensive manufacturing know-how with a commitment to technological innovation.

We have advanced research and development capability, which is supported by a state-level corporate technology center that was ranked first three consecutive times between 2012-2018 amongst such technology centers in the PRC tire industry. We also formed enterprise-university-research institute collaboration schemes with higher education institutions, including Qingdao University of Science & Technology, Jilin University and Harbin University of Science and Technology. The adoption and commitment to such research scheme has helped us accumulate valuable industry knowledge, which we believe have been instrumental to us introducing valued price-performance products that meet customer demand. We have also participated in the formulation of a number of ministerial and national science and technology plans, and have played a major role in formulating the guiding principles for the 13th five-year development plans for the tire industry of China. Moreover, during the Track Record Period, we participated in the formulation of industry standards for tires and related industries, whereby we formulated and/or amended 20 standards including the rolling resistance measurement schemes and 11 other standards already published for implementation. We believe such result evidences our strong industry know-how, and our advanced technical capability. Please see “– Research and Development – National Standards”.

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We have been recognized for our commitment to research and development and technological innovation within the industry. Rongcheng Rubber Factory, the predecessor of Chengshan Group, our Controlling Shareholder, joined in the establishment and accomplishment of 300,000 unit Semi-Steel Radial Tires production line in 1992, and we were selected as the tire manufacturer to undertake a MIIT approved green manufacturing system integration project in 2016. We won Shandong Science and Technology Award for our production achievements, including the development of a 1.0 million unit high performance radial tire production line, and have received invention patents for various production techniques. Furthermore, in February 2017, Our innovation center of multi-scale tire life cycle manufacturing in Shandong were amongst the first to be named by Shandong Economic and Information Technology Committee as one of the pilot innovation centers in the manufacturing sector in 2017. We believe we are well positioned to be a leader in the design and manufacturing of environmentally friendly tires in the PRC.

Over the years, together with other research institutions, we have formulated the production process for various tire standards that are adopted by other industry participants, and our commitment to technological innovation has also led to advancement of technical know-how. We have repeatedly elevated our product performance to meet more stringent tire performance standards implemented in more advanced tire markets. Such accomplishments include developing advanced low rolling resistance tires that could be installed on SUVs and creating a diverse portfolio of tires for different travel conditions that satisfy the low noise standards set by the European Union. We have also improved our product manufacturing process, including adopting an automated-vulcanization process that we believe has greatly enhanced the precision of final step of tire production, and implementing an automated low-temperature raw material mixing procedure that reduced electricity consumption and elevated production efficiency. We believe our all-around effort equips us with the know-how to consistently manufacture high-performance tires that meet the ever-evolving consumer demands and preferences.

Experienced and stable management team with profound industry knowledge and international vision, supported by our strategic shareholder, Sinotruk Capital.

Our track record of 40 years in the tire production industry has allowed us to develop an experienced management team, among whom a majority have over ten years of experience in the tire manufacturing industry. Our seasoned senior management team guided us through multiple market cycles and has been instrumental in our development into a major tire manufacturer in the PRC with a key presence in the global All Steel Radial Tire market. We also have a group of senior personnel who are mostly “lean six-sigma black belt certified”, which is a qualification that certifies a senior manager’s ability to lead improvement projects. Furthermore, American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants granted us an “Outstanding Management Award” in 2015. On top of its valuable day-to-day operational experience, our management team has been collaborating with external parties, including a nine-year joint venture with Cooper, and is familiar with regulations in foreign jurisdictions. We believe such experience allows us to better manage the changes that come with trade regulations and has better equipped us to expand and manage our

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operations overseas. We believe the strength of our senior management team is also one of the factors that lead our strategic shareholder Sinotruk Capital to invest in us. We closely collaborate with Sinotruk Group to leverage on each other's technical expertise, resource and industry experience. We enjoy the opportunity to procure a stable supply of rubber from Sinotruk Group and to further expand our sales channel to Sinotruk Group.

OUR STRATEGIES

As a major PRC tire manufacturer in the All Steel Radial Tire and Semi-Steel Radial Tire markets, we plan to strengthen our existing market position in the PRC and in parallel increase our competitiveness in the overseas and new products markets. Our principal strategies include the following:

Strengthen our market position in the All Steel Radial Tire market and continue to expand our Semi-Steel Radial Tire business.

We are a major PRC tire manufacturing company, and we held a leading position in the PRC Commercial All Steel Radial Tires replacement market in terms of sales volume as of December 31, 2017. We intend to strengthen such market position by (i) expanding our production capacity at our Rongcheng, Shandong facility, (ii) developing new products according to market needs, and (iii) further growing sales channels that we believe have good growth potential. In terms of production capacity expansion, we expect to complete the expansion of our All Steel Radial Tires production capacity, including the installation of automated equipment. Demand for our All Steel Radial Tires is expected to increase as long haul delivery constitutes a larger portion of the logistics industry and as the demand for electric passenger vehicles strengthens. In terms of sales channel development for our All Steel Radial Tire products, we seek to strengthen our existing leading market position in the All Steel Radial Tire replacement market by providing value-added services across the tire life cycle to large logistics motorcade. For example, one value-added service we are planning to offer is the maintenance and management services in a tire rental business model, in which we lease tires to customers and provide a complete package of value-added services, such as installation, maintenance, data analysis, recycle and renewal, during the term of the lease. Our target customers for such services include logistic and transportation companies, which are frequent consumers of tires and in particular need of regular and full-scale value-added services on tires. We believe innovative business model and value-added services will diversify our market positioning with a service component and increase our revenue sources with recurring service fees in addition to one-off sales revenue. We seek to become close partner of our customers who they would trust for tire services and needs. We believe such strategy would differentiate us from our competitors, enhance our brand value and strengthen our leading market position.

For the sales of our Semi-Steel Radial Tire products, we intend to increase our production and devote more resources to strengthen our relationship with existing vehicle manufacturer customers and develop new customers in this market segment. Moreover, we seek to establish more retail stores with our Semi-Steel Radial Tires distributors. According to Frost & Sullivan, the Semi-Steel Radial Tires market in China is expected to expand at a CAGR of approximately 8.8% in the forecast period of 2017 to 2021. Given such market growth, we believe a strong relationship with vehicle manufacturers coupled with the establishment of retail stores would strengthen our market position in the Semi-Steel Radial Tire market.

Please see “– Production Facilities and Production Capacity – Production Capacity Expansion” for further details of our production capacity expansion plans.

Enhance our global footprint and capture the growing opportunities in the tire industry.

We seek to strengthen our global presence through a focused development of certain key overseas markets, including establishing local sales teams with a good understanding of a particular market. Such development includes expansion of sales in North America under our own brands in 2018, further developing our sales network in the European Union through our subsidiary in Slovak Republic and enhancing our brand exposure in the Middle-East and Africa.

From 2018, there is no longer sales restriction as set forth in the Offtake Agreements with Cooper and we are free to sell our products under our own brand to customers other than Cooper in North America. According to Frost & Sullivan, the U.S. automotive tire industry is expected to continue to grow in the foreseeable future, mainly driven by the recovery of automobile industry as part of the recent growth of the overall economy, the growing investment on infrastructure announced by the U.S. government which is expected to drive demand for automotive tires and the large base of vehicle owners who will need replacement tires. We believe we have established a presence and certain market reputation in North America through years of cooperation with Cooper. In particular, through our cooperation with Cooper, we accumulated sales data and knowledge of market demands and consumer preferences of tire products in different regional markets in the United States, and we believe such data and knowledge will help us customize our products under our own brand to better suit customer demands. In addition, we plan to set up a sales center in the United States to promote sales and provide on-the-ground after-sales services. The sales center is expected to commence operation in late 2018. We believe the combination of an informed sales and marketing plan and the local support from our sales centre will help us secure new customers and acquire market share under our own brand.

As a recent entrant in the European markets, we implemented bespoke strategies designed to enhance our competitive advantages. Two of our products, namely, the winter tires with better grip and stronger safety functions on wet terrains and the medium/long haul tires with enhanced ground grip on wet or dry road and mountain paved road, are suitable to weather condition of many European countries. In 2016, we opened a branch office in Europe in order to improve our sales efforts and provide marketing support and on-the-ground customer

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consultation services. As a result, our sales volume in Europe increased significantly from approximately 360,000 units in 2015 to approximately 830,000 units in 2017 and to approximately 268,000 units for the three months ended March 31, 2018. Given the significant size of the European markets and our competitive strengths in that market, we believe there is great growth potential for us in the foreseeable future.

Moreover, as a step to enhance our global footprint, expand overseas and meet the demands of the global market, we are considering utilizing a portion of the net proceeds from the Global Offering to construct and/or acquire an overseas production base to expand our production capacity. In deciding whether to invest in or acquire a particular asset or business, we consider multiple factors, including the location of such project and whether it allows/helps us to (i) better manage our production costs, (ii) readily access our target market through local production, delivery and after-sales services; and (iii) mitigate the risks that come with trade regulations only applicable to products manufactured in and exported from the PRC, such as anti-dumping and anti-subsidy duties and applicable tariff. After careful assessment, we believe certain countries in Southeast Asia, especially those within the breadth of the “One Belt One Road” initiative, are good candidates for our overseas investment in the foreseeable future. According to Frost & Sullivan, the implementation of the “One Belt One Road” initiative has substantially driven the infrastructure construction and relevant industry in the Southeast Asia region, which in turn stimulated great growth potential of the tire industry. We procure both natural rubber and synthetic rubber from countries in Southeast Asia, and already sell our products in many of the countries in the region. We believe establishing a production base in Southeast Asia will enable us to save production cost, including lowering our labor and transportation costs, and sales and marketing cost through local access to raw materials and customers. In addition, many PRC manufacturers in our industry chain, including some of our upstream suppliers, have already expanded their operations into Southeast Asia under the “One Belt One Road” initiative, which could create further synergy with our operations if we establish operations in the same region. We will simultaneously explore opportunities to construct or acquire an overseas production base, compare available options and execute the most viable plan when the timing is right. As of the Latest Practicable Date, we do not have a definitive plan or agreement to construct or acquire an overseas production base.

Enhance our brand portfolio and increase our brand recognition and reputation.

We plan to implement a brand strategy that will reinforce our market leadership in the PRC and gain a stronger footprint globally. While “Chengshan” has traditionally been our best known brand, we seek to further strengthen our brand promotion to increase public awareness. We intend to adopt measures that include establishing more retail outlets to show case our products, hold more product education and promotion meeting for our targeted end customers, participate in nationally-televised product shows and exhibits and sponsoring truck racing competitions. We believe such effort will attract customers and improve high brand recognition, which in turn, would contribute to more gains in market share. Moreover, we plan to strengthen the promotion of our “Prinx”, our brand for medium to premium tires, to further elevate our corporate image as a major domestic tire manufacturer capable of producing both good price-performance tires and premium tires that could one day compete with industry leading international brands.

Further strengthen our research and development capability and enhance our technical know-how.

We seek to continue to enhance our expertise and technical know-how in order to meet the increasingly stringent technical requirements and to improve the safety and reliability of our products. Alongside the development of new energy vehicle and autonomous vehicles, we intend to further develop (i) products with lowered rolling resistance to allow more efficient power transformation, (ii) light weight tires with good hauling capacity, (iii) abrasive resistance tires to prolong the lifespan of such products, (iv) products with more excellent anti-eccentrically worn performance for safety enhancement, and (v) smart tires with sensors that allows better monitoring of tire performance. Moreover, to further enhance our research efficiency we seek to further develop data collection and product simulation software. In particular, in the next few years we plan to invest RMB3.5 million in phase one of the product lifecycle management system, RMB2.2 million in high-efficiency simulation analysis software and RMB7.5 million in the development of cloud computing. We believe such tools could help us reduce the time and costs associated with new product development. At the same time, as the demand for All Steel Radial Tires for medium to long haul trucks and electric buses increases, and as the sales of sports utility vehicles and electric passenger cars continue to grow, we intend to continue to deepen our research and development activities that focus on designing tire products for such vehicles.

We are committed to investing additional resources to further strengthen our research, testing and product development capability. We intend to do so by recruiting more professionals, purchase more equipment to facilitate forward-looking development of products. We have established a research and development center in Qingdao, Shandong province and have a testing center at our main production base in Rongcheng, Shandong province. In terms of equipment to facilitate development projects, we intend to invest in infrastructure that allow us to more accurately measure new material functions and new product performances. Such investments shall include purchases of hardware and software used to analyze and study tire components and tire performances. We believe our research and development capability would enhance our ability to meet the demand of our direct sales vehicle manufacturer customers, especially in the Semi-Steel Radial Tires.

We also intend to collaborate with external parties on research projects, including conducting research on key product features with higher education and research institutions and study of raw materials with industry leading raw material suppliers. Such collaboration can complement and reinforce our in-house research efforts and gives us an opportunity to further enhance our ability to transform research results into market ready products. As the qualification and accreditation standards for relevant tires markets are expected to heighten alongside increased consumer awareness for safe, quality and environmentally friendly tires. The ability to continue to produce new products that meet the elevated industry and/or market regulations will be key to our future success.

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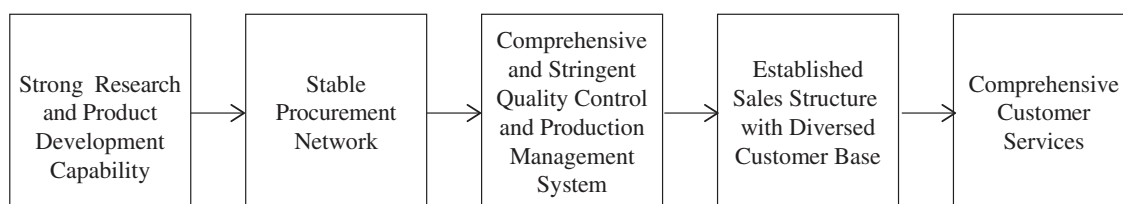
Adopt environmentally friendly measures and continue to upgrade our production process.

We strive to continue to enhance our production process by implementing additional environmentally friendly and smart procedures that strengthens our product's quality and competitiveness under heightened environmental standards. We intend to adopt product design, raw material selection, production management and recycling processes of more environmentally friendly products. Such procedures include designing strengthened tire bodies that could enhance the tire lifespan and enhancing our ability to produce new tires using recycled tires. Furthermore, we seek to reduce the complexity of the tire production by adding more machines that augments the automated process during such production stage. We believe the adoption of such automated smart procedures would further enhance our product quality consistency and improve our productivity. Moreover, to ensure that we continue to produce top quality products, we will also invest approximately RMB260.0 million to build a testing and inspection center. The investment includes approximately RMB230.0 million for purchase of testing equipment, which include rolling resistance testing machines, pressure distribution analysis machines and tire hologram testing machines, and approximately RMB30.0 million for construction of facilities. We plan to fund the investment through working capital. We plan to complete the construction of facilities in October 2018. Phase one of equipment installation and testing will begin after the completion of construction and Phase two of equipment installation and testing is planned to begin in June 2019. We intend to use the center to conduct a wide variety of tire testing and inspection, including but not limited to the testing of raw materials, new tire products and the compatibility of tires with designated vehicles, to support our research and development and sales activities.

OUR BUSINESS MODEL

We believe our success is built on our proactive approach towards providing high quality products according to our customers' needs in a timely manner, which is based on our strong research and product development capability and an efficient operation. Going forward, we strive to continue to differentiate ourselves from our competitors by strengthening our technical capability.

We operate under a customer first, market driven business model executed in five closely-knit operational modules connected by our information technology system and overseen by our well-established management system. Please see “– Business Intelligence and Information Technology” for further details of our information technology system. Our five operational modules include (i) strong research and product development capability, (ii) stable sourcing network, (iii) comprehensive and stringent quality control and production management system, (iv) established sales structure with diverse customer base, and (v) comprehensive customer services, as illustrated below.



Strong Product Development Capability

We have advanced research and development capability and a well-established state-level corporate technology center. In addition, we formed enterprise-university-research institute collaboration schemes with higher education institutions, including Qingdao University of Science & Technology, Jilin University and Harbin University of Science and Technology. Such research scheme has helped us accumulate valuable industry knowledge that have helped us continuously introduce quality assured products while meeting the changing demand of consumers.

We also conduct independent research on the latest market demands, which we then couple with relevant data we gathered from our customers to formulate research and development projects to test out the new product concepts. Such effort has resulted in our successful development of more than 150 tire products per annum, including development of tires with advanced noise reduction features, enhanced rolling resistance capability. For further details please see “– Research and Development”.

Stable Procurement Network

We have a stable sourcing network. Through our suppliers, we have been able to access quality-assured raw materials that could be delivered at designated delivery times at competitive prices, and we continue to enhance the breadth and depth of our supply network by regularly reviewing and evaluating suppliers while deepening our relationship with our existing qualified suppliers. For details of our suppliers and our supplier review system, please see “– Raw Materials – Suppliers”.

Comprehensive and Stringent Quality Control and Production Management System

We have established an efficient and stringent quality control system covering product life. Our quality control process commences at the raw material procurement stage and runs through an extensive road testing designed to ensure that such products perform according to designed features throughout the product life. Moreover, to ensure consistent product quality, we would conduct full lifecycle monitoring and strict periodic testing on certain products even after such products have been mass produced. According to Frost & Sullivan, we are one of the few tire manufacturers in the PRC who conducts such post-production testing. We believe our stringent quality control process has contributed to our attaining one of the lowest product warranty claim rates in the PRC Radial Tires industry. In addition, to ensure an efficient utilization of resources, we designed and implemented standardized procedures that commences with raw material procurement, testing of work-in-progress products and product delivery and aftersales customer services. We require that relevant personnel strictly follow standardized procedures implemented to reduce wastage or losses. Please see “– Manufacturing – Manufacturing Process” for further details.

Established Sales Structure with Diverse Customer Base

We have an established sales structure that encompasses a diverse customer base. As of March 31, 2018 our distribution network includes more than 400 distributors in the PRC and overseas, which when coupled with our direct sales relationships with 24 vehicle manufacturers in the PRC and a long history of supplying to Cooper allows our products to reach major tire markets. We have built a stable revenue stream from sales to distributors in the replacement tire market as such market is less cyclical, and at the same time established relationship with leading vehicle manufacturers to tap into product markets with better margins. Our dual-channel sales model allows us to benefit from the increase in demand for new tires when vehicle manufacturing cycles trend upwards, and positions us well to continue to grow through our sales in the replacement tires market as the average vehicle life increases.

Comprehensive Customer Service

With a view to enhancing customer satisfaction and enlarging our customer base, we strive to provide our customers with a more fulsome service across the tire lifespan and strengthen our ability to provide tires that best meets the demand of our customers. Our sales team stays abreast of our customers' needs and regularly provides value-added services, such as product education and participates in other events that allow us to closely interact with end users to ensure end user satisfaction and enhance customer loyalty. We strive to send relevant personnel on site within 48 hours of notice to resolve any product queries and we are committed to supporting our customers in responding to tire utilization queries, including tire selection and maintenance. We also apply the market knowledge we garner from our visits and communication with customers and follow up during aftersales to develop new products, thus forming a virtuous cycle of knowledge reinforcement. A close interaction with market players provides us with timely insight in evolving consumer preferences. Such experience allows us to add to our wealth of market knowledge and product know-how garnered over our long history, which in turn, strengthens our position as a leading tire manufacturer.

OUR PRODUCTS

We design, manufacture and distribute All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires that are sold mainly under our medium to premium brand, "Prinx" and well-known brands, "Chengshan", Austone" and "Fortune". We have established a product portfolio of over 2,400 products that are used by a wide range of vehicles operating on diverse terrains, including trucks, buses, passenger cars, agricultural and industrial vehicles. Our products have received relevant product certifications from the major tire markets in the world, including DOT for the United States and ECE for the European Union, and are supplied to approximately 130 countries.

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The following table sets forth our revenue by product for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
All Steel Radial Tires	2,647,683	75.2	2,930,728	76.7	3,692,706	76.3	987,604	77.5	1,064,511	78.5
Semi-Steel Radial Tires	654,419	18.6	674,707	17.7	940,145	19.4	218,079	17.1	259,397	19.1
Bias Tires	219,777	6.2	216,293	5.6	207,545	4.3	69,411	5.4	31,711	2.4
Total	3,521,879	100.0	3,821,728	100.0	4,840,396	100.0	1,275,094	100.0	1,355,679	100.0

The following table sets forth our gross profit and gross profit margins by product for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
All Steel Radial Tires	533,342	20.1	653,022	22.3	617,746	16.7	122,746	12.4	222,203	20.9
Semi-Steel Radial Tires	113,131	17.3	119,592	17.7	113,959	12.1	16,573	7.6	35,342	13.6
Bias Tires	51,741	23.5	55,185	25.5	36,892	17.8	12,099	17.4	4,438	14.0
Total/margin	698,214	19.8	827,799	21.7	768,597	15.9	151,418	11.9	261,983	19.3

The table below sets forth the price range of our products for the periods indicated.



	Year ended December 31,			Three months ended March 31,
	2015	2016	2017	2018
	Price Range	Price Range	Price Range	Price Range
	(RMB/Unit)	(RMB/Unit)	(RMB/Unit)	(RMB/Unit)
All Steel Radial Tires	530-3,552	445-3,374	425-3,374	443-3,801
Semi-Steel Radial Tires	118-491	107-1,047	107-930	128-999
Bias Tires	81-5,647	113-4,800	113-4,800	81-5,255

Product Types



All Steel Radial Tires

We have a strong track record in supplying All Steel Radial Tires. We established a model production base for an All Steel Radial Tire production line with one million units capacity in the 1990s and received science and technology advancement award from the Shandong province for the formulation of All Steel Radial Tire molds.

Our All Steel Radial Tires are mainly installed on heavy vehicles, including medium and heavy loading trucks, large buses and semi-trailers. To support the weight of the vehicles and the loadings carried by such vehicles, both the body ply layers and belt ply layers of our All Steel Radial Tires use steel cords as cord piles and belt frame materials. Our All Steel Radial Tires primarily include the following products:

<u>Our Products</u>	<u>Product Picture</u>	<u>Description</u>
Medium/Long Haul Tires:		<p>Tires designated for medium/long haul transportation are generally designed for (i) heavy loading vehicles travelling on generally paved and occasionally poor or off-road conditions; and/or (ii) trucks or buses travelling at high speed and normal road conditions. Such products include the following features:</p> <ul style="list-style-type: none">• medium/long haul tire pattern that enhances ground grip on wet or dry road and mountain paved road designed for effective foreign object ejection• optimized construction and contour that improve stress distribution across the tread, and reduce uneven tire wear• low rolling resistance that enhances fuel efficiency and offer higher mileage
Bus Tires:		<p>We also design All Steel Radial Tires for buses designated for various transportation distances. These products, while sharing the same features as regional and long haul tires, are also designed with a focus on providing:</p> <ul style="list-style-type: none">• stable and comfortable driving condition• quiet riding experience with reduced noise generation• enhanced heat dissipation to reduce tire wear caused by long distance travel

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<u>Our Products</u>	<u>Product Picture</u>	<u>Description</u>
Mixed Service Road Tires and Off-Road Tires, including construction and mining designated tires:		<p>We offer mixed service road tires and off-road tires that are applied in poor and off-road conditions. As such products are generally designed for industrial vehicles utilized in off-road conditions, they generally include the following features:</p> <ul style="list-style-type: none">• enhanced puncture and chip-cut resistance, anti-wear performance and tire disintegrating protection• powerful traction and heat generation reduction open shoulder structure to provide for good water evacuation as well as anti-hydroplaning
Light Truck Tires:		<p>We offer light truck tires that are mainly applied to commercial vehicles travelling on generally paved and occasionally unpaved roads.</p> <p>Such products include the following features:</p> <ul style="list-style-type: none">• low rolling resistance, and good tire wear resistance

Semi-Steel Radial Tires

Our history of producing Semi-Steel Radial Tires dates back to the 1980s, and in 1992 established and completed a 300,000 unit industrial Semi-Steel Radial Tires production line in the capacity of Rongcheng Rubber Factory (榮成市橡膠廠) (our predecessor) together with Beijing Rubber Industry Design Academy (北京橡膠工業研究設計院). For further details, please see section headed “History, Reorganization and Corporate Structure – Major Milestones”. Between 2006 and 2013, we focused on the development and production of our All Steel Radial Tires with Cooper and increased our effort in developing our Semi-Steel Radial Tires business again in 2014.

BUSINESS

Our Semi-Steel Radial Tires are mainly installed on passenger vehicles and a small commercial vehicles, including light trucks and mini vans. Different to the All Steel Radial Tires, the body ply layers of Semi-Steel Radial Tires are typically composed of fibers and polyester, while the belt ply layers thereof use steel cords as cord piles as frame materials same as that of the All Steel Radial Tires. Our Semi-Steel Radial Tires primarily include the following products:

<u>Our Products</u>	<u>Product Pictures</u>	<u>Description</u>
Passenger Car Tires:		<p>We have a comprehensive portfolio of passenger car tires that the tire diameter between 12-inch to 22-inch with market-recognized low-rolling resistance and noise reduction features. Our passenger car tires are designed to be environmentally friendly while ensuring comfort and safety for passengers. Such tires encompass following features:</p> <ul style="list-style-type: none">• wide grooves that provides for excellent water dispersion and skid resistance• lateral grooves that provide for better grip and braking ability• tire wear resistance and low noise features that provide for a more comfortable riding experience
Pick-up Truck Tires/SUV Tires:		<p>Our Light Truck and SUV tires are designed with reinforced tire carcass and deeper tire groove. We believe such design offers better wear resistance performance while reducing the noise generated during travels and provides for more comfortable ride. Our SUV Tires are designed to encompass outstanding performance on winding paths, low noise feature, good to use in snowy condition to secure a comfortable riding experience.</p>
Winter Tires:		<p>Our winter tires are designed with asymmetric pattern on the tire surface to offer better grip and stronger safety functions on wet terrains. In general, our winter tires include features designed to:</p> <ul style="list-style-type: none">• increase surface absorption between tire and ice, providing better road traction and braking on ice and snow conditions• wider longitudinal grooves to disperse water and lush from the tire footprint area in icy conditions

Bias Tires

Our Bias Tires are primarily installed on agricultural vehicles and industrial vehicles that provide services in off-road, including muddy, conditions. While demand for Bias Tires has not grown as much as the All Steel Radial Tires in recent years, Bias Tires are still the preferred tires for agricultural vehicles and certain special industrial vehicles because of its operational efficiency and safety features on muddy terrains. We intend to continue to produce Bias Tires and maintain our existing product portfolio to serve this niche market segment.

Bias Tires: Our Bias Tires are suited for vehicles applied to off-road conditions for agricultural and industrial use, including mines, stone pit and tunnels. Such tires are not as suited for high speed travels and are less fuel and energy efficient than radial tires.

Our Bias Tires primarily include the following products:

<u>Our Products</u>	<u>Product Pictures</u>	<u>Description</u>
Agricultural Tires:		<p>Our agricultural tires are designed with patterns that provide for:</p> <ul style="list-style-type: none">• good mud dispersion and ground traction on soft soil and muddy road conditions• better self-cleaning ability• puncture protection and tire wear resistance
Other Tires:		<p>Our other Bias Tires are used by industrial vehicles, light and medium load trucks, and off-the-road vehicles, and they generally include the following features:</p> <ul style="list-style-type: none">• excellent tire wear resistance• reduced heat generation• chipping and chunking resistance

SEASONALITY

Our business is seasonal in nature. Sales of our products are affected by the sales and usage of the vehicle type to which it is applied. The sales of vehicles may be affected by public holidays and weather conditions, such as slower vehicle sales during the Chinese New Year and the monsoon and snow seasons.

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SALES AND CUSTOMERS

We currently sell our products through three main channels: (i) sales to replacement market through our PRC and overseas distributors, (ii) direct sales to vehicle manufacturers, and (iii) sales to Private Label customers. Through our three sales channels, our products reach approximately 130 countries, including sales to leading vehicle manufacturers in the PRC, large logistics teams, transportation fleet designated for hazardous materials and the demands created by the tire replacement market. Our products are primarily sold in the PRC, the United States and the Southeast Asia region.

Benefited from our long history, market position and brand recognition, our products have achieved high penetration rate in the PRC in the All Steel Radial Tires replacement market, which we primarily conduct through distributors. With a view to capitalizing on the rapidly growing passenger vehicle market, we commenced to develop our Semi-Steel Radial Tires distribution network. We also successfully developed 24 vehicle manufacturers as our customers as of March 31, 2018. For the year 2017 and 2018 we were engaged as the sole tire supplier to established logistics teams, such as Jianhua Logistics, and commenced to provide tires for transportation teams specialized in carrying hazardous materials. Moreover, to capture the growth offered by the expanding e-commerce channels, we have also commenced to develop a business to consumer sales channel through Wellong Etown (惠龍易通). Currently, our sales through such channel constitute a de minimis portion of our total sales.

For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, sales to our five largest customers accounted for 41.8%, 36.9%, 31.2% and 31.4% of our total revenue, respectively. Each of our five largest customers for the three months ended March 31, 2018 was engaged in the production and sales of vehicles and the sales and/or trading of vehicle tires, respectively, and have maintained business relationships with us for over six years. Cooper was our largest customer and accounted for 21.0%, 20.5%, 14.8% and 13.3% of our total transaction amount for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Sinotruk Group was among our top-five customers and accounted for 4.1%, 4.4%, 5.6% and 7.0% of our total transaction amount for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. For the year ended December 31, 2017 and the three months ended March 31, 2018, the four largest customers other than Cooper all have their main operations in the PRC and together accounted for 16.4% and 18.1% of our total transaction amount, respectively. For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, three of our five largest customers were vehicle manufacturers in the PRC and together accounted for 15.0%, 12.1%, 13.2% and 14.7% of our total transaction amount, respectively. One customer among our five largest customers for the years ended December 31, 2015 and 2016 was a Private Label customer whose main sales were made in Middle East and Africa, and accounted for 5.8% and 4.3% of our total transaction amount for the years ended December 31, 2015 and 2016, respectively. During the Track Record Period, to the best knowledge of our Directors, our five largest customers were all Independent Third Parties. None of our Directors or their associates or our Shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital had any interest in any of the five largest customers. Please refer to subsection headed “– Pricing and Payment Terms” for further details of the credit terms and payment methods with our five largest customers.

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Sales by channel

The table below sets forth our revenue by sales channels for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)									
Distributors										
<i>Domestic</i>	1,027,394	29.2	1,393,106	36.5	1,774,498	36.7	561,195	44.0	485,987	35.9
<i>International</i>	789,603	22.4	799,854	20.9	1,341,025	27.7	287,601	22.5	324,507	23.9
	1,816,997	51.6	2,192,960	57.4	3,115,523	64.4	848,796	66.5	810,494	59.8
Direct sales to										
Vehicle										
Manufacturers	757,101	21.5	677,581	17.7	975,037	20.1	211,398	16.6	337,230	24.9
Private Label										
Customers	947,781	26.9	951,187	24.9	749,836	15.5	214,900	16.9	207,955	15.3
	<u>3,521,879</u>	<u>100.0</u>	<u>3,821,728</u>	<u>100.0</u>	<u>4,840,396</u>	<u>100.0</u>	<u>1,275,094</u>	<u>100.0</u>	<u>1,355,679</u>	<u>100.0</u>

During the Track Record Period, changes of our gross profit margin for each sales channel were largely in line with the changes of overall gross profit margin, which was mainly affected by fluctuation of raw material cost. For more details, please refer to “Financial Information – Key Factors Affecting Our Results of Operations – Fluctuation of Raw Material Cost.”

Whenever there is an increase in raw material price, in particular the price of natural or synthetic rubber, we will try to pass the resulting increase in our cost to customers by increasing sales prices of our products. Our management holds regular cost analysis meetings to assess the trend of raw materials price and production cost in the following months and plan our production and sales accordingly. In general, when a raw material price increases at a stable rate, we have more latitude to plan production accordingly and are more likely to secure a corresponding increase in sales price by making reference to the steady increase in the raw material price to our customers. Conversely, when a raw material price fluctuates, it is more difficult to negotiate a sale price increase due to the uncertainty and the lag in time between production and sales. In particular, the fluctuation of raw material cost from the end of 2016 to the end of March 2017 had a prominent negative impact on our gross profit margin. When we attempt to pass on cost increase to customers, we form different sales plans based on the types of customers. This is mainly because our pricing power varies with different types of customers, which is in turn affected by the nature of the sales. For example, with vehicle manufacturers, we generally renegotiate the sale prices of our products at renewal of contract which leaves us with less flexibility to timely react to raw material price fluctuations.

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Conversely, with distributors, we generally have the right to adjust sale prices of our products in response to raw material price fluctuations upon giving notice to our distributors. In addition, as an industry norm, vehicle manufacturers generally have strong collective bargaining power against their suppliers like us and it is thus more difficult to timely pass cost increase onto vehicle manufacturer customers.

In terms of sales through distributors, we generally had more pricing power to timely pass on cost increases in sales through domestic distributors as compared to international distributors due to factors such as our market shares in the PRC and flexibility in communication and negotiation with domestic distributors due to proximity, which resulted in higher gross profit margin for sales through domestic distributors.

Distributors

We have a well-established sales and distribution network for our All Steel Radial Tires in the PRC and overseas, and building on our successful All Steel Radial Tires distribution network, we strengthened our Semi-Steel Radial Tires distribution network in 2015. Currently, we sell our products to more than 400 distributors in the PRC and overseas on a wholesale basis, and our distributors then on-sell our products to their sub-distributors, retailers and other customers in the replacement market. Our relationship with our distributors is one of seller and buyer and not of principal and agent. We recognize revenue when the ownership of our products has been transferred to our distributors, which our Directors believe is a common market practice in the PRC tire industry. The distribution model enables our products to be distributed in the PRC in a cost-effective manner.

We believe it is important to maintain a core group of major distributors both in the PRC and overseas and adopting a distributorship model which is common among our peers. We continue to expand our distribution network in the overseas markets and optimize our domestic distribution network. We have established stable, long-term relationship with many of our major distributors. Our top 10 distributors in each of 2015, 2016, 2017 and the three months ended March 31, 2018 consisted of 15 distributors, five of which were continuously among our top 10 distributors each period. In addition, we have over 10 years of business relationship with 13 out of these 15 distributors. Among these 15 distributors, six operated in the PRC, four operated in Asia, three operated in Africa and two operated in South America. None of these top distributors contributed more than 5% of our total revenue in any fiscal year during the Track Record Period. Revenue contribution from a given distributor for each fiscal year is largely affected by end user demand and our sales strategy in a given market.

To the best knowledge of our Directors, during the Track Record Period all of our distributors were Independent Third Parties, and none of our current or former employees were employees of such distributors. In addition, we (including our shareholders, directors and senior management), our subsidiaries and their shareholders, directors and senior management, and to the best of our knowledge, their respective associates, did not and do not have any past or present relationship with our distributors.

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In the PRC

As of March 31, 2018, our distribution network in the PRC included more than 240 distributors, who sold through their sub-distributors and their retail stores covering the tire markets in the PRC. We believe that our established sales and distribution network provides us with timely market information on the latest consumer needs and preferences, and enhances our ability to meet consumer demands and launch new products. In the foreseeable future, we plan to continue our sales focus in the major cities and provinces in southern and eastern China, and we intend to replicate our success and further expand the breadth and depth of our sales and distribution network into other major cities in economic hubs with strong growth potential, including regions where logistical services are expected to grow. For further details, please refer to the subsection headed “– Our Strategies – Strengthen our market position in the All Steel Radial Tire market and continue to expand our Semi-Steel Radial Tire business.”

Overseas

As of March 31, 2018, we also sold our products to the overseas market through more than 150 distributors, who covered approximately 130 countries. Our sales to overseas distributors differ slightly from our sales to the distributors in the PRC. We commence to produce products ordered by our overseas distributors only after the receipt of such orders and generally do not provide long term storage for such products. We believe such operational model has contributed to our cost management and enhanced our profitability. In addition, our international sales network allows us to diversify our customer base globally and have helped us raise our brand profile among consumers in the European Union, the Gulf region, middle-east and Southeast Asia.

The following table sets out changes in the number of our distributors during the periods indicated:

	PRC				Overseas			
	Year ended			Three	Year ended			Three
	December 31,			months	December 31,			months
	2015	2016	2017	ended	2015	2016	2017	ended
			March 31,				March 31,	
			2018				2018	
Number of distributors as at beginning of the period	158	173	193	200	79	80	98	156
Number of new distributors Newly appointed	73	74	79	65	9	23	61	9
Number of distributors terminated	58	54	72	18	8	5	3	8
Number of distributors as at end of the period	173	193	200	247	80	98	156	157

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For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, we newly engaged 82, 97, 140 and 74 distributors, respectively, primarily due to our expansion in the (i) Semi-Steel Radial Tires market in the PRC and (ii) overseas market, including the European Union and South America. The termination of 66, 59, 75 and 26 distributors for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, was mainly due to the fact that the relevant distributors (i) were unable to meet pre-determined sales targets or (ii) were unable to meet our expectation on market development in the designated area or region. Natural attrition also contributed to such termination. We do not, and are under no obligation, to take back unsold inventories of terminated distributors. During the Track Record Period, distributors who were terminated were typically small distributors in terms of revenue contribution while our top-ten distributors remained relatively stable.

We adopt strict guidelines to select, assess and monitor our distributors. We typically conduct background search and obtain and examine copies of business licenses and tax registration certificates from our potential distributors in the PRC and conduct similar checks on the overseas distributors. We also consider a wide range of factors, including their relevant experience and reputation, credibility, capability in operation and management, location, customer base and whether such distributor operate other tire brands, when determining whether such distributors qualify as our distributors. Differentiating factors we take into consideration between our PRC distributors and international distributors include:

- end users sourced by distributors: our PRC distributors mainly source domestic end users, while an international distributor may help us source end users in multiple countries;
- competent governing authorities: sales we made through international distributors are subject to custom inspection and additional supervisions by competent authorities;
- different tax regimes: we are subject to different taxes in different jurisdictions;
- internal management: we typically implement different distributor management procedures for PRC and international distributors, with tailored credit terms and pricing lists, among other things; and
- sales strategies: we typically plan our production for international sales based on product orders we received, while for domestic sales we take more latitude in anticipating market demand.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns or product exchanges from our distributors.

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Distribution Agreements

We generally enter into annual distribution agreements with our major distributors. Based on such agreements, our distributors then place monthly purchase orders with us that typically set out the types, prices and quantities of our products to be ordered along with the key terms as set forth below:

- *Term* – typically a term of one year for both the PRC and overseas distributors.
- *Designated sales areas* – We generally impose designated sales areas or regions for our distributors.
- *Sales target and minimum purchase amount* – Our distribution agreements generally include sales targets but do not impose minimum purchase amount on our distributors.
- *Return or exchange of products* – We do not accept return of non-defective unsold products.
- *Termination* – We are entitled to terminate the distribution agreements if, among others, our distributors (i) fail to reach the sales target for a pre-determined period, or (ii) are in breach of the distribution agreements and fail to rectify the breach despite our written request to do so.
- *Pricing* – Our distributors may determine the prices at which they sell the products to end users, and we actively monitor such retail prices. Please see “– Pricing and Payment Terms” for details of our product pricing.
- *Payment term* – With the exception of distributors whom we have established business relationship, we require our distributors to pay cash prior to delivery of each order.
- *Delivery* – We are generally responsible for delivery of our products to locations or ports in the PRC designated by such distributors and bear the corresponding costs.
- *Sales discounts* – During the Track Record Period, we provided sales discounts in the range of 4.5% to 13.5% based on the purchase amount of our distributors.

Management of Distributors

We emphasize the importance of collaboration with our distributors. During the Track Record Period, we required distributors to adopt standardized and streamlined sales strategy implemented by us. We believe such measures have better aligned the interest of distributors and reduced inefficient use of resource that in turn could harm our brand and reputation. We also regularly monitor the performance of our distributors based on a number of factors, including maintenance of their creditworthiness, expansion of distribution channels, improvement in overall sales performance and management of customer relationship.

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We encourage our sales personnel to regularly communicate with our major distributors and conduct inspections on them at their points of sales to monitor their retail sales volumes, inventory levels and marketing and promotional activities. As for the distributors in the PRC, we also ask our major distributors to submit sales report and projected product demand to us on a monthly basis. As for the overseas distributors, our sales personnel communicate with them from time to time to understand their sales and inventory status. Moreover, to avoid cannibalization and enhance effective control, we grant designated sales area or region in which our distributors operate for different product-types and include in the distribution agreement clauses that impose penalties and, in material cases, entitle our Company to terminate the agreement, if a distributor is found to sell our products outside of its designated sales area or region. Further, we have established formal evaluation system for our distributors based on a set of criteria, which includes sales performance, scale, length of time as our distributor.

We do not believe our distribution system has been affected by cannibalization because (i) we did not experience any material sales returns or product exchanges from our distributors except for selected cases of defective tires, and (ii) the recoverability of accounts receivables from distributors during the Track Record Period has been satisfactory. Our Directors believe that the measures taken by us to manage our distributors have been effective to deter activities that would lead to cannibalization.

Sub-distributors

We generally allow our distributors to engage sub-distributors in their respective sales areas or regions. We do not enter into direct contractual relationship with such sub-distributors, which we believe is also the industry norm. The sub-distributors generally directly place orders with our distributors who then group the orders altogether and communicate with us. We then prepare our products according to the purchase orders provided by our distributors and issue the sales invoice to and settle payment with our distributors. We believe that our current sales arrangement with distributor and sub-distributors allowed us to have better credit control and distribution management.

We generally rely on our distributors in managing sub-distributors and to ensure that sub-distributors comply with our sales policies. However, our sales personnel help our major distributors manage their respective sub-distributors in various ways, including regular contact and service, maintenance of store front and customer relationship, training on products, retail skills and product promotions. As such, although we do not directly monitor or manage sales performance and inventory level of sub-distributors on a regular basis, our sales personnel are generally aware of operational status of sub-distributors. During the Track Record Period and up to the Latest Practicable Date, we did not identify any material negative finding of the sub-distributors under our distributors and we believe our management of distributors and the help we provide to the distributors in managing their sub-distributors reduce the risk of channel stuffing at the sub-distributor level.

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Direct Sales to Vehicle Manufacturers

In addition to distributors in the replacement market, we supply directly to 24 vehicle manufacturers in the PRC, including some of the passenger and commercial vehicle manufacturers in the PRC. To ensure that our products are compatible with the performance features of specific vehicles, we have also been invited to participate in the design of vehicle tires. We believe our participation in such activities has helped us further advance our technical capability and allowed us to stay abreast of the latest market trend. Going forward, we intend to continue to increase our direct sales to vehicle manufacturer customers, particularly with established vehicle manufacturers, such as Sinotruk, who we believe can elevate our brand recognition. A detailed list of our major vehicle manufacturer customers is as below:

<u>Customer</u>	<u>Product Type</u>
Sinotruk Group	All Steel Radial Tires
Jiangling Auto	All Steel Radial Tires and Semi-Steel Radial Tires
Dongfeng Liuqi	All Steel Radial Tires and Semi-Steel Radial Tires
China FAW	All Steel Radial Tires
SAIC Hongyan	All Steel Radial Tires
Qingling Auto	All Steel Radial Tires and Semi-Steel Radial Tires

Supply Agreements with Vehicle Manufacturers

We enter into annual supply agreements with vehicle manufacturer customers under which such customers place purchase orders with us on a monthly basis that typically set out the types, prices, and quantities of our products to be ordered. Set out below are the key terms of the supply agreements we typically enter into with such customers:

- *Terms* – Term is generally one year.
- *Minimum purchase amount* – We generally do not impose minimum purchase amount on our vehicle manufacturer customers.
- *Return or exchange of products* – We do not accept return of non-defective unsold products.
- *Pricing* – Please see “– Pricing and Payment Terms” for details of our product pricing.
- *Production forecast* – We require our vehicle manufacturer customers to provide monthly production forecast for the following month.

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- *Delivery* – We are generally responsible for delivery of such products to locations designated by our vehicle manufacturer customers and bear the corresponding costs.
- *Termination* – Some of our direct sales customers are entitled to terminate the supply agreements if, among others, we are in serious breach of the supply agreements or other related agreements, or the products we produced are seriously defective.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns or exchanges from our direct sales to vehicle manufacturers.

Collaboration with Our Vehicle Manufacturer Customers

We collaborate closely with our vehicle manufacturer customers to understand their needs and their development plans. During the Track Record Period, we successfully developed and manufactured 218 products that catered to the specific needs of our vehicle manufacturer customers.

Private Label Customers

We sell our All Steel Radial Tires and Semi-Steel Radial tires to Private Label customers in the United States and United Arab Emirates. We enter into framework agreement and monthly purchase orders with our Private Label customers, under which we supply tires meeting their specifications. These framework agreements generally set forth estimated purchase volumes by the Private Label customers, while the sales prices are generally renegotiated every quarter based on market conditions and fluctuations in raw material prices. Each party may terminate by written notice if the other party fails to deliver or purchase 80% of the annual supply and purchase volume, among other customary termination events. Our Private Label customers usually place monthly purchase orders with us, setting forth the product type and purchase volumes for each month and the purchase volume forecast for the following two months. We maintain inventories based on our production capacity and the demand of our customers to avoid the losses of Private Label customers due to failure to make timely deliveries of our products. We charge higher prices to cover delivery expenses to designated ports if customers require us to arrange for such product delivery. During the Track Record Period and up to the Latest Practicable Date, we did not encounter material compensation claims resulting from our failure to make timely deliveries of our products.

In July 2018, the United States government published “Request for Comments Concerning Proposed Modification of Action Pursuant to Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation”, which proposed to impose an additional 10% tariff on a list of products imported from China. The proposed list currently includes all products we exported to the United States during the Track Record Period. On August 1, 2018, the United States government indicated it is exploring the possibility of increasing the proposed tariff from 10% to 25%. The final list of products subject to this additional tariff was announced on September 17, 2018, which included all tires we

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exported to the United States during the Track Record Period. According to the announcement, the additional tariff was set at 10% and will become effective as of September 24, 2018. The announcement also expressed the United States government's intention to raise this additional tariff to 25% in 2019. Revenue generated from such affected products accounted for 14.5%, 16.9%, 12.9% and 13.8% of our total sales revenue in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, over 90% of which are All Steel Radial Tires.

For illustrative purposes only, the table below sets forth the maximum negative impact such tariff could have on our historical gross profit. This illustration assumes that the additional tariff, if imposed on our sales during the Track Record Period, would be completely assumed by us, without any mitigation measures such as price increase or change of sales plan.

	For the year ended December 31,						For the three months ended March 31,	
	2015		2016		2017		2018	
	Change in gross profit	Change in gross profit	Change in gross profit	Change in gross profit	Change in gross profit	Change in gross profit	Change in gross profit	Change in gross profit
Tariff imposed on us	<i>(RMB million)</i>	%	<i>(RMB million)</i>	%	<i>(RMB million)</i>	%	<i>(RMB million)</i>	%
10%	(51.2)	(7.3)%	(64.6)	(7.8)%	(62.2)	(8.1)%	(18.7)	(7.1)%
25%	(128.1)	(18.3)%	(161.6)	(19.5)%	(155.6)	(20.2)%	(46.7)	(17.8)%

We believe we can employ a number of strategies to mitigate the adverse impact, including (i) passing the tariff onto our customers, or passing the tariff in part or in full onto the end users in collaboration with our customers due to the competitiveness of our current prices in the United States as compared to those of comparable products; (ii) directing sales of All Steel Radial Tires to other regions due to the demand for our products in relation to our production capacity and (iii) constructing and/or acquiring an overseas production base, which will help us to avoid the increased tariff applicable to products manufactured in and exported from the PRC. We had limited sales volume of Semi-Steel Radial Tires in the United States during the Track Record Period and we do not expect the additional tariff on any Semi-Steel Radial Tires to have any immediate significant adverse impact on us. We are closely monitoring the development of the situation and discussing with our customers in the United States for active measures we or our customers could take to convey our opinions to the relevant United States government entities during the review and approval process.

Relationship with Cooper

According to Cooper's annual report for the year ended December 31, 2017, Cooper was incorporated in the State of Delaware in 1930 as the successor to a business originally founded in 1914, and is the twelfth largest tire manufacturer in the world based on sales with nine manufacturing facilities and a global sales and distribution network. Cooper's operations focus on passenger car and light vehicle replacement tires in North America, where it is the fifth largest tire manufacturer based on sales. Cooper has been listed on the New York Stock Exchange since July 1960.

We have a long-established relationship with Cooper, including nine years as a joint venture partner of Cooper. We entered into the partnership to expand our international market outreach and produced tires that are sold under the brands owned by Cooper. Our joint venture with Cooper was terminated in 2014, and we entered into two offtake agreements with Cooper on August 14, 2014 (effective on November 30, 2014), pursuant to which we supply All Steel Radial Tires (the "All Steel Radial Tires Offtake Agreement") and Semi-Steel Radial Tires (the "Semi-Steel Radial Tires Offtake Agreement", together with the All Steel Radial Tires Offtake Agreement, the "Offtake Agreements") to Cooper. Substantially all of our sales to Private Label customers are derived from supply of tires to Cooper. We are not the sole supplier of tires to Cooper, but we believe we are an important supplier to Cooper. For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, Cooper was our largest customer. Sales to Cooper, which included sales to Cooper in the PRC and the United States, accounted for 21.0%, 20.5%, 14.8% and 13.3%, respectively, of our revenues.

Set forth below are the major terms of our two offtake agreements with Cooper with the relevant terms separately listed if such term differs between the agreements:

- *Term* –
 - (a) *For All Steel Radial Tires Offtake Agreement* – November 30, 2014 to June 30, 2019; and
 - (b) *For Semi-Steel Radial Tires Offtake Agreement* – November 30, 2014 to June 30, 2019
- *Sales Restriction* – Pursuant to the Offtake Agreements, we were subject to a restriction to sell Semi-Steel Radial Tires to Canada, the United States and Mexico and sell All Steel Radial Tires to North America, subject to certain exceptions such as a particular brand of All Steel Radial Tires that can be sold in North American countries other than the United States, from the date of the Offtake Agreements till December 31, 2017, after which all of the sales restrictions on our products pursuant to the Offtake Agreements will be lifted.
- *Pricing* – We determine the prices of products we sell under the offtake agreements with reference to factors that include, among others, raw material and production costs. Such prices are adjusted according to raw material prices and other costs changes regularly. Please refer to subsection headed "– Pricing and Payment Terms" for details of our product pricing.

BUSINESS

- *Termination* – both we and Cooper are entitled to terminate the offtake agreements if, among others, either of us is in breach of the offtake agreements and fails to ratify the breach after the other party’s written request for such rectification.
- *Minimum purchase volume and penalties* – Cooper agreed to procure a specific minimum volume of All Steel Radial Tires and Semi-Steel Radial Tires each year from 2014 to 2018. Cooper shall pay monetary penalties should its total order fall below predetermined threshold of such minimum volume subject to force majeure provisions. The amount of penalty for each year shall be determined in January of the following year according to an equation which is based on factors including the average purchase price of the last quarter of such year and the shortfall between the actual purchase volume and the applicable threshold.

For each year from 2014 to 2017, Cooper was able to meet the minimum purchase volume and was not subject to any penalty payment as a result. Based on sales made to Cooper in 2018 up till the Latest Practicable Date, we do not expect the relevant penalty would be triggered in 2018.

We have already commenced discussions with Cooper on renewal of the Offtake Agreements. Based on the progress of such discussions and the long term business relationship between us and Cooper, our Directors are of the view that both parties have strong intentions to renew the Offtake Agreements.

Prior to January 1, 2018, we made a small amount of sales in the United States to customers other than Cooper for the type of products not covered under the sales restriction.

Pricing and Payment Terms

We set the prices for our products sold to distributors based on a variety of factors, including our production costs, prices for competing products, the complexity of the manufacturing process and market demand. We set similar criteria when setting the prices for our products sell to vehicle manufacturers and Private Label customers according to annual budget target, except we would also take into consideration the estimated purchase volumes and market competition for the relevant product. Such cost plus basis pricing has allowed us to be less affected by the fluctuation in raw material prices and attain relatively stable gross profit margin. We evaluate our product prices regularly, and usually determine when and how to adjust product prices based on the evaluation results.

We determine the payment terms for each customer according to the customer’s credit history, financial condition and business relationship with us. For customers with whom we have established relationships, we generally grant credit periods of no more than 60 days. We do not grant credit terms to new customers within one year and we only deliver to such customers after receipt of the payment in full. For more details on credit terms granted to customers, please refer to “Financial Information – Description of Certain Line Items in the Consolidated Statements of Financial Position – Trade receivables”.

Warranty

We generally provide a four-year warranty for tires sold to customers against defects in materials and workmanship, and allow the exchange of defective products. Our market development center is responsible for managing our customer complaints and liaising with other relevant departments to resolve such complaints. We do not (i) accept product returns or (ii) compensate customers for harms or losses caused by factors other than defects in materials and workmanship. For our overseas customers, our customers are responsible for providing the services of warranty and exchanging for defective tires, if the Company recognizes the claims of overseas customers based on the claim policy, we generally compensate for any warranty claims by providing additional tires at no extra charge. In March 2016, Cooper recalled a batch of tires produced by us which had a pin-side hole and if left unattended could potentially lead to air leakage. Less than 600 units were recalled, and we incurred settlement cost of approximately USD70,000 which was paid in full in 2016. Upon receiving the notice from Cooper about the potential air leakage, we conducted inspection of our vulcanizers which we believe is most likely to cause the potential defect and confirmed there was no defect. Nevertheless, in response to this incident, we implemented additional inspection procedures on the vulcanizers, which provide for inspection scope, frequency and standards as well as internal penalty measures for failure to meet the standards. It was a one-off event that was rectified within 2016 and we do not believe it had any significant negative impact on our financial condition or results of operation in 2016 and 2017, including our sales to Cooper. Other than the aforementioned incident, during the Track Record Period and up to the Latest Practicable Date, we did not have any material warranty claims on our products, and we did not experience any product recalls or any material defective products returns or exchanges or sales returns.

Sales, Marketing and Customer Support

As of March 31, 2018, we had a sales and marketing team that consists of 254 personnel, which included: (i) commercial vehicle replacement center, (ii) passenger car replacement sales department, (iii) original equipment sales center, (iv) international sales center, and (v) market development center. Each sales support center covers a portion of our business, including (i) handling customer enquiries and feedback on a regular basis and organizing joint promotion events with relevant customers, (ii) conducting market research and analysis, including collecting feedbacks on product performance and a study of competitor products, (iii) maintaining customer relationship, (iv) assist in maintaining and monitoring accounts receivables, and (v) liaising with relevant internal departments on product development, manufacturing and delivery. Our market development center is primarily responsible for (i) formulating medium to long term product development strategies and plans, (ii) conducting market research, understanding customer demand and industry trend to help formulate product development strategies and plans, (iii) tracking new product development and the sales of such products, (iv) product management across the product lifespan, (v) monitoring market response to Company's tire quality and analyzing and responding to tire defect related incidents, (vi) managing product complaints from customers and assisting in forming product warranty policies, (vii) arranging media coverage to enhance brand recognition and influence, and (viii) formulating and executing brand promotion plans. We believe our sales team's familiarity with our customers' customs and business practices enables us to meet customer support requirements on a timely basis.

BUSINESS

Commencing in 2013, as part of our effort to increase our sales, brand awareness and loyalty, we encourage our customers to establish retail outlets that showcase our products. For customers whose retail outlets meet our pre-determined quality criteria, we would grant promotional benefits that include subsidies for advertising and promotional activities and assigning designated technicians for on-site problem solving. We believe close interaction with our distributors and end customers has strengthened our brand awareness and customer loyalty. Moreover, as part of our marketing strategy, we focus on building our brand through media events and product demonstrations that educate about our products and business development achievements. We also participate in nationally-televised product shows and exhibits and have sponsored truck racing competitions to increase our brand awareness.

RAW MATERIALS

Procurement of Raw Materials

We purchase raw materials from qualified suppliers who have passed our quality check, on a global and local basis. The principal raw materials consist of natural rubber, synthetic rubber, steel wire cords, carbon black and auxiliary chemicals. During the Track Record Period, we were able to procure such raw materials from multiple sources in quantities sufficient for our needs. We did not experience any significant shortages of raw materials and normally do not carry inventories of those items in excess of those reasonably required to meet our production and shipping schedule. For details of our provision for impairment of inventory and inventory provision policy, please see “Financial Information – Description of Certain Line Items in the Consolidated Statements of Financial Position”.

Our top five suppliers are suppliers of natural rubber, synthetic rubber and steel wire cords. For the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, our five largest suppliers accounted for approximately 23.6%, 27.0%, 28.5% and 24.8% of our total costs of purchase, respectively. Our five largest suppliers for the three months ended March 31, 2018 have maintained business relationships with us for approximately one to 20 years. During the Track Record Period, we purchased raw materials from three entities who are also our customers, which include purchase of carbon black from Supplier A, auxiliary chemical materials from Supplier B and natural rubber from Sinotruk. Supplier A’s main business is the production and sales of carbon black. An affiliate company sharing the same controlling entity with Supplier A and in the business of sales of tires is a distributor of ours. Supplier B’s main business is the production and sales of auxiliary materials for rubber production and small gadgets. A company registered in the name of the spouse of the owner of Supplier B is a distributor of ours. Sinotruk Capital, a subsidiary of Sinotruk Group, is a supplier of rubber to us. During the Track Record Period, our purchase from Supplier A and Supplier B and sales to their respective affiliates constituted a very small portion of our costs of purchase and total revenue. Our purchase from Sinotruk Capital for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018 amounted to RMB44.1 million, RMB60.5 million, RMB133.2 million and RMB10.4 million, respectively, while total sales to its affiliates for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018 amounted to RMB145.3 million, RMB168.6 million, RMB271.9 million and RMB95.3 million, respectively. Sinotruk Capital was one of our five largest suppliers for the year ended December 31, 2017. To the best of our Directors’ knowledge, during the Track Record Period, our five largest suppliers were all Independent Third Parties.

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Save as disclosed above, none of our Directors or their associates or our Shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital had any interest in any of the five largest suppliers.

Our Procurement Process

The objective of our procurement process is to purchase high quality materials in quantities demanded by our production plan for a particular period, and delivered within our required time frame at reasonable price. Our raw material procurement process commences with a report prepared by our procurement team on raw material needs determined with reference to our monthly production plan and the research and development requirements for a particular period. Such report is then evaluated by our procurement department and adjusted according to the updated production plan and relation between market supply and demand, and based on such evaluation, our procurement department would then select suppliers that best meets our needs. Our procurement department also place raw material orders based on the ad hoc procurement needs arising from changes to our production plan. We would also make strategic purchases when we believe the spot price of a relevant material is reasonable. We believe the implementation of such structured yet flexible system has helped us manage our raw material costs and enhance operational efficiency.

During the raw material purchase price determination process, our procurement department would first conduct a market research and compare the latest raw materials prices based on bids and quotes which we receive from our strategic suppliers and pre-approved suppliers. Such information, in turn, gives us the relevant market information and data we rely on to make procurement decisions. To ensure that the information we receive are current, we make price enquiry of natural rubber and synthetic rubber on a daily basis, and hold biddings process amongst pre-approved suppliers at least once every quarter with respect to other major raw materials such as wire cords and carbon black. Such process coupled with regular studies and analysis of major raw materials used in our production allows us to evaluate and update available raw material sources, which we believe have been instrumental in helping us procure high quality materials at cost-effective prices.

Suppliers

We primarily source raw materials from our strategic suppliers and qualified suppliers located in the PRC and Southeast Asia region. Our panel of qualified suppliers consists of suppliers which have passed our internal quality review. Further details on selection of qualified suppliers are described under “– Supplier Management” below. We typically procure raw materials from our pre-approved suppliers through a bidding process. We then place orders based on the amount and price for each batch of raw materials as determined through a bidding process. In addition, we generally source from no more than five suppliers for each type of raw material. However, to ensure we continue to receive a stable supply of raw materials according to our needs, we also maintain a list of potential suppliers with whom we may collaborate when necessary.

BUSINESS

We select from our panel of qualified suppliers as our strategic suppliers. Such selection is based on suppliers' reputation, particularly in relation to product quality and ability to supply according to our demand, and our relationship/cooperation track record. We enter into an annual supply agreement with our strategic suppliers.

We believe our procurement system has allowed us to purchase raw materials at desired quantities under cost-effective prices, and at the same time, enabled us to remain current on the latest of raw material market through our bidding process.

Supplier Management

To ensure that we can consistently procure high quality and cost-effective materials, we regularly evaluate our existing suppliers and encourage internal recommendation of new qualified suppliers. To be included on our panel of pre-approved supplier, a supplier must pass our quality review, which includes a detailed inspection of such supplier's operation, small sample test, on-site review and big sample experiment of sample materials of various sizes provided. Once the selected supplier is approved by our procurement and quality assurance team, it would be included in our panel of pre-approved suppliers and invited to participate in our future purchase/bidding purchase process. We also conduct regular reviews on our existing suppliers, including strategic suppliers. Such review includes an evaluation of the following: (i) past track record, particularly the ability to meet the quantity and quality of materials we ordered, (ii) supply at competitive prices, (iii) delivery according to our required schedule, and (iv) overall service quality. We also conduct audits and on-site inspections on pre-approved suppliers who had no transaction with us for more than one year and suppliers who do not meet our expectations. We would then update our panel of pre-approved suppliers based on the results of aforementioned reviews, and we believe such measures have helped us ensure that we can continuously procure from quality suppliers.

Agreements with Suppliers

Although the terms and conditions vary from supplier to supplier, and with the exception of supply agreement we entered into with natural rubber and synthetic rubber suppliers, we typically place orders for the amount we require of specific raw materials through single purchase orders.

Agreement with Our Strategic Suppliers: We procure certain quantity of main raw materials needed by us through selected suppliers with whom we enter into strategic relationships. We enter into annual supply agreements with such suppliers that set forth our projected monthly demand for various raw materials in such agreement, but such agreements (i) generally do not have minimum purchase amounts, and (ii) include purchase discount provision tied to our cumulative procurement volume during the agreement term. We then place monthly orders according to our production and research and development needs and determine the per unit price of each batch with the supplier with reference to the agreed to formula to determine the price of such materials or in some cases according to agreed to price. We generally pay for our natural rubber orders once such materials are received at the designated port, while for our procurement of synthetic rubbers, we typically receive a one to three day credit period that commences from the receipt of the relevant materials.

BUSINESS

Purchase Orders with Pre-approved Suppliers: We enter into purchase orders with the pre-approved suppliers to procure raw materials according to our projected needs. We generally enter into such purchase orders monthly either through (i) direct negotiation with such suppliers, in which case we would discuss the per unit price of raw material with reference to the market price, the changes in purchase price and material cost of previous period, or (ii) a bid process, in which case the per unit price would be determined through bidding. We generally receive a 60 to 90 day credit period that commences from the receipt of formal receipts relating to the relevant batch of our order of steel wire cords and carbon black. Occasionally, we would also enter into ad hoc procurement arrangements to satisfy our operational needs or to manage our procurement cost when the price for certain raw material is projected to materially increase. For further details, please refer to the details under “– Price Fluctuations” section below.

We require our suppliers to (i) arrange delivery of our orders to locations designated by us and be responsible for any loss incurred prior to our receipt of such materials and (ii) comply with all applicable laws, rules, regulations, orders, conventions, ordinances and standards of the country or countries of origin and destination or that relate to the manufacture, labeling, transportation, importation, exportation, licensing, approval, performance and certification of the goods or services. If a supplier breaches supply contract, we may terminate the agreement and recover, recoup or set off any losses, costs or damages resulting from the supplier. We may also be entitled to compensation of goods as well as monetary damages. We primarily make payment to our suppliers through electronic funds transfer or bank acceptance.

Price Fluctuations

We seek to manage fluctuations in prices of raw materials by passing our cost increases to our customers to the extent possible. In special circumstances, where we foresee material changes to the supply market of a particular raw material, we would make strategic purchases to increase the inventory of such materials when we believe market price is reasonable. Such purchases are subject to our management’s prior approval and are implemented only in rare occasions. We would also engage in more frequent communication with suppliers to ensure timely delivery of our orders. For increases in the price of raw materials which we are unable to timely pass on to customers, we attempt to mitigate the adverse impact of such price increases by improving our manufacturing and purchasing efficiency. Please see “Risk Factors – Risks Related to Our Business and Industry – We are exposed to risks posed by fluctuations in the prices of raw materials, and any substantial fluctuation in prices for these commodities could have a material adverse effect on our business, financial condition and results of operations” for further details.

We did not enter into any hedge contracts with regard to procurement of raw materials during the Track Record Period and do not currently have any hedging policies with regard to our raw materials.

BUSINESS

PRODUCTION FACILITIES AND PRODUCTION CAPACITY

Production Facilities

We produce our products at our facility in Rongcheng, Shandong Province, which has an aggregate gross floor area of approximately 480,087.85 sq.m. As of the Latest Practicable Date, our production facility houses three main production lines with a total annual production capacity of 12.4 million tires. Our three main production lines include (i) an All Steel Radial Tires production line with annual production capacity of 4.7 million tires, (ii) a Semi-Steel Radial Tires production line with an annual production capacity of 6.5 million tires, and (iii) a Bias Tires production line with an annual production capacity of 1.2 million tires. Our production facility is in line with the national development policy, we have established three automated production lines and expect to add more automated production features. We are also expanding our production facility in Rongcheng, Shandong Province by expanding our All Steel Radial Tires production capacity by 2.55 million tires, of which we expect to complete 0.55 million units in 2018. We will use part of the proceeds from the Global Offering to fund such expansion. For further details, please refer to subsection headed “– Expansion and Upgrade of Production Capacity in Rongcheng” in this section and “Future Plans and Use of Proceeds”.

Production Volume, Production Capacity and Utilization

The following table sets forth our production volume, production capacity and utilization rate for the specified products for the period/years indicated:

Products	For the year ended December 31,									For the three months ended March 31, 2018		
	2015			2016			2017			Volume	Capacity	Utilization Rate
	Volume	Capacity	Utilization Rate	Volume	Capacity	Utilization Rate	Volume	Capacity	Utilization Rate			
(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	(%)	
All Steel Radial Tires	3,421,710	4,500,000	76.0%	4,133,444	4,500,000	91.9%	4,512,203	4,700,000	96.0%	1,125,692	1,175,000	95.8%
Semi-Steel Radial Tires	3,671,194	6,500,000	56.5%	4,270,969	6,500,000	65.7%	5,573,272	6,500,000	85.7%	1,311,924	1,625,000	80.7%
Bias Tires	829,026	2,000,000	41.5%	850,880	1,500,000	56.7%	729,037	1,200,000	60.8%	113,876	300,000	38.0%

Notes:

- The designed capacity is computed on the basis of the optimal production speed of various machines per hour for 24 hours a day and 350 working days per calendar year, taking into account the relevant regular maintenance.
- For the actual production volume of our products, factors considered include our human resources, the area of our production facilities and optimal production speed of our various production machinery and equipment.
- Utilization rate is computed by dividing the actual production volume by the designed production capacity during the same period.

BUSINESS

Primary factor affecting the utilization rate of our manufacturing facilities is market demand for products, which affects the volume of orders from our distributors, direct sales customers and Private Label customers, and our ability to utilize our newly ramped-up capacity. Over the Track Record Period, our utilization rate generally increased, which was in line with our business expansion.

Expansion and Upgrade of Production Capacity in Rongcheng

We believe that our manufacturing facilities are well maintained, in good operating condition and suitable for their current purposes. During the Track Record Period, our utilization rate for each type of product increased each year, largely driven by demand for our products. In particular, our production of All Steel Radial Tires was near full capacity at a utilization rate of 96.0% in 2017 and 95.8% for the three months ended March 31, 2018. Our utilization rate for Semi-Steel Radial Tires was quickly approaching full capacity as well, increasing from 56.5% in 2015 to 85.7% in 2017 and slightly decreased to 80.7% for the three months ended March 31, 2018. The increases in demand were also reflected in the fact that our inventory turnover days decreased from 86 days in 2015 to 76 days in 2016, to 59 days in 2017 and further to 53 days in the three months ended March 31, 2018. The trend of increasing utilization rates indicates the need to expand our production capacity if we are to continue to meet the increasing demand for our products.

We believe both the general market trend and our competitiveness in relation to other market participants signal an increase in demand for our products in the foreseeable future. We expect the general market demand for both All Steel Radial Tires and Semi-Steel Radial Tires to increase alongside the macroeconomic growth and heightened environmental protection standards in the PRC. In the All Steel Radial Tires market, demand for such products is expected to increase as long haul delivery constitutes a larger portion of the logistics industry, and elevated environmental standards creates a need for truck replacement. While in the Semi-Steel Radial Tires market, we believe that we are well-positioned to capture a larger market share of both the direct sales to vehicle manufacturers and passenger car replacement markets. Our need to expand production capacity is also supported by our historical sales record that consistently outperformed the market average. Our sales volume for All Steel Radial Tires and Semi-Steel Radial Tires increased at a CAGR of 15.4% and 19.7% from 2015 to 2017, respectively, significantly higher than 2.7% and 3.9% estimated for the global market and 5.0% and 12.6% estimated for the PRC market during the same period, according to Frost & Sullivan. We will continue to leverage our competitive strengths and execute our business strategies in order to capitalize market opportunities and increase our market share, in support of which we plan to prudently expand our production capacity. For more details, please refer to the paragraphs headed “– Our Strengths” and “– Our Strategies”.

We believe our expansion plans will be beneficial to our business in the following ways: (i) it will alleviate the pressure on our existing All Steel Radial Tires and Semi-Steel Radial Tires production lines; (ii) enhances our ability to meet the increase in domestic demand, and also help us expand into growing emerging markets such as those in southeast Asia; and (iii) gives us an opportunity to practically contribute to the “One Belt One Road” initiative.

BUSINESS

All Steel Radial Tires Expansion Plan

Expected Capacity Expansion

We plan to expand our All Steel Radial Tires production capacity at our Rongcheng Production Facility by 2,000,000 units by 2021 in two phases.

We have commenced the implementation of the first phase of our All Steel Radial Tires production capacity expansion and expect to put into operation in 2019. The expected total cost for the first phase of such expansion is to be approximately RMB496.5 million, of which we intend to fund RMB34.0 million with our proceeds from the Global Offering and the balance with our internal capital. In terms of timing for the total investment, we expect to incur (i) RMB126.9 million prior to listing, (ii) RMB143.3 million post-listing and prior to the end of 2018, and (iii) RMB226.3 million in the first half of 2019.

We intend to commence the second phase of our All Steel Radial Tires production capacity expansion in 2019 and to put into operation by 2021. The expected total cost for the second phase of such expansion is to be approximately RMB650.7 million, of which we intend to fund RMB261.3 million with our proceeds from the Global Offering and the balance with internal capital. In terms of timing for the total investment, we expect to incur RMB124.0 million during the first half of 2019 and RMB137.4 million in the second half of 2019. We expect to incur RMB389.3 million in 2020.

We plan to purchase various equipment as part of the capacity expansion. The table below sets forth the details of machines we plan to purchase:

<u>Name</u>	<u>Quantity</u>	<u>Country of origin</u>
Internal mixer	1	PRC
Extruder machine	5	PRC
Steel coil winding machine	1	Italy
Cutting machine	6	PRC
Tire building and shaping machine	19	PRC/Holland
Vulcanizer	136	PRC
Testing machine	12	Japan/Germany

We also plan to establish automated logistic facilities and MES system to enhance our production and inventory management. For example, the implementation of MES system on our production process will enable us to gather a wide variety of real-time production data. Accumulation and analysis of such data will give us the information needed to optimize production procedures, improve consistency of product quality and reduce production costs. In addition, the implementation of MES system and sorting robots on our inventory management system to sort and track inventory in an automated and systematic manner will help us realize the automated transport and management of finished goods in the testing and sorting processes to increase efficiency and reduce human error, so as to improve production efficiency, enhance quality consistency and reduce needs for human resource.

BUSINESS

Please see the section of “Use of Proceeds” for details of our application of proceeds to the expansion plan.

Payback Period and Breakeven Period

We expect the payback periods for the first and second phase of our All Steel Radial Tire expansion to be 2.5 and 3.5 years, respectively, while the breakeven periods for the two phases are projected to both be one year. The expected payback period refers to the time required for the expansion project’s accumulated revenue to cover its accumulated direct expenses as well as capital expenditure, while the expected breakeven period refers to the time required for the relevant expansion project’s accumulated revenue to equal to its accumulated direct expenses. The estimation of such investment payback and breakeven periods takes into account certain key factors, including (i) the estimated sales revenue that could be derived from such capacity expansion; (ii) the estimated raw material costs; (iii) the estimated manufacturing costs, including labor, utility and transportation costs; and (iv) other miscellaneous expenses and costs.

Semi-Steel Radial Tires Expansion Plan

Expected Capacity Expansion

We plan to expand our Semi-Steel Radial Tires production capacity at our Rongcheng Production Facility by 2,250,000 units by 2021.

We intend to commence the expansion project in 2019. The expected total cost for such expansion is to be approximately RMB460.9 million, of which we intend to fund RMB144.5 million with our proceeds from the Global Offering and the balance with internal capital. Of the total amount to be invested in this project, RMB415.1 million is intended for the purchase of equipment and the balance for the construction of the added plant. In terms of timing for the total investment, we expect to incur (i) RMB291.9 million post-listing and in the first half of 2019, (ii) RMB90.6 million in the second half of 2019, and (iii) RMB78.4 million in 2020.

Please see the section of “Use of Proceeds” for details of our application of proceeds to the expansion plan.

Payback Period and Breakeven Period

We expect the payback period and breakeven period for our Semi-Steel Radial Tire expansion to be 4.8 and two years, respectively. Please refer to “– All Steel Radial Tires Expansion Plan – Payback Period and Breakeven Period” for a description of how the payback period and breakeven period is calculated. The estimation of such investment payback and breakeven periods takes into account certain key factors, including (i) the estimated sales revenue that could be derived from such capacity expansion; (ii) the estimated raw material costs; (iii) the estimated manufacturing costs, including labor, utility and transportation costs; and (iv) other miscellaneous expenses and costs.

Feasibility Studies and Key Criteria

We engaged third parties to perform feasibility studies for our expansion plans. The feasibility studies contained the key criteria which we considered for the investment plan:

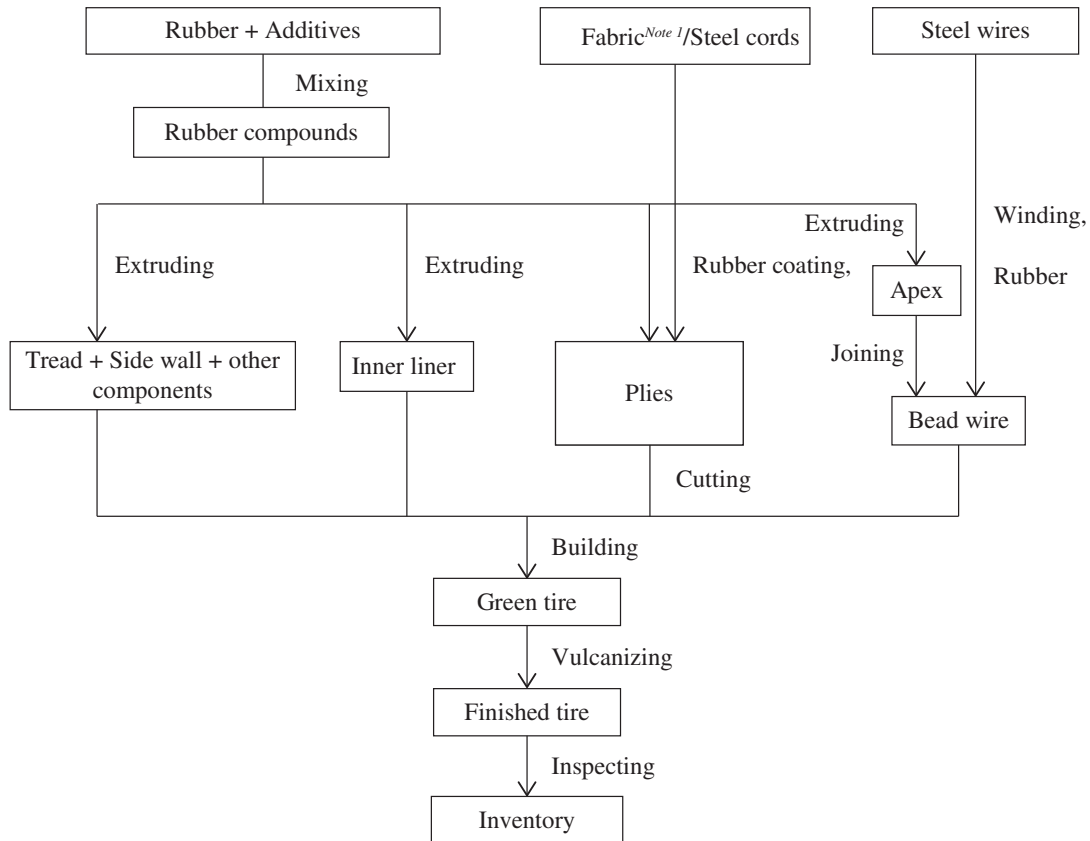
- an overview of the project;
- plant design and operational parameters;
- design for ancillary facilities;
- energy conservation studies;
- basic and logistics infrastructure;
- safety and health studies;
- funding plan including funding costs and source of funding;
- environmental impact study;
- payback period; and
- conclusion.

Risks Related to Our Expansion Plan

There are certain potential risks associated with our expansion plan. Our management team members have to allocate their time from other daily operations to ensure such projects are executed according to plan and the expanded production capacity would have the intended results. Moreover, we incur expenses and capital expenditures for such investment, which put pressure on our cash flows. If we fail to properly manage such expansion, we face the risk of adversely affecting the reputation of our brands and our financial condition. Moreover, the factors and assumptions used and considered by us in performing our analysis prior to entering into such expansion plan may not be appropriate or accurate. We may not be able to generate sufficient revenue to offset the costs and expenses incurred for such expansion project. Please see “Risk Factors – Our plans for capacity expansion, business development and investment is subject to uncertainty and the assumptions used by us may not be appropriate or accurate.” We believe our extensive experience in the tire manufacturing industry well prepares us for the challenges and risks that come with such expansion plan.

Manufacturing Process

Our manufacturing process is designed to emphasize product integrity and quality. The manufacturing process for our products can be broadly categorized into the following steps.



Note 1: Fabric is only used in Semi-Steel Radial Tires.

Making of rubber compounds. The compounds consisting of natural and synthetic rubber, carbon black and various other additives are mixed in the mixing mill. Different additives are used in different components of tires to give specific material characteristics. The resulting mix is the rubber compounds, which are cooled and stored for further processing.

Making of tread, sidewalls, inner liner and apex. Different types of rubber compounds are exuded through exuder machines of different specifications to form the different components of a tire: tread, sidewalls, inner liner and apex. These tire components are then cooled, cut, checked and stored for building.

Making of carcass plies and belt plies. Carcass plies and belt plies are the main load-bearing components of a tire. The carcass of an All Steel Radial Tire is made of rubber-coated steel cords plies. The carcass of a Semi-Steel Radial Tire is made of rubber-coated fabric cords plies. Carcass plies and belt plies are made from fabric or steel cords that are coated with rubber compounds in the calender which are then cut to specific lengths.

Making of bead. Steel wires that are covered with rubber compounds through the exuder machine which are wound into a wire ring. The wire ring is then joined with an apex to form the bead, which works to keep a tire firmly seated on the rim.

Tire formation. Bead, inner liner, carcass plies, belt plies, side walls, tread and other components are built on the tire building drums to form a green tire, which is ready for vulcanization.

Vulcanization. The green tire is placed in the mold of the vulcanizing machine, and the chemical reaction occurs to rubber compounds at a certain time, pressure and temperature conditions, transforming the tire from a plastic to an elastic state, thus completes the production process of the finished tire. The vulcanizing machine is the main equipment of such process.

Our total production time for a tire varies by the size and weight of product. For example, for the tire building and shaping process, All Steel Radial Tires need approximately four to 16 minutes, Semi-Steel Radial Tires two to three minutes, and Bias Tires three to 28 minutes; in respect of the vulcanization process, total production time ranges from 24 to 104 minutes for All Steel Radial Tires, 10 to 22 minutes for Semi-Steel Radial Tires, and 35 to 70 minutes for Bias Tires. In order to utilize our manufacturing facilities more effectively and enhance our manufacturing efficiency, we have developed and implemented the Manufacturing Execution System, which is an advanced manufacturing system that focuses on lean production methodology and zero-defect manufacturing measures. For further details, please refer to subsection headed “– Business Intelligence and Information Technology.”

We have implemented the lean six sigma doctrine in our production process. Our Company has set up a department designated for the improvement of manufacturing process and responsible for the management of those projects. We provide black belt training courses to all members of our senior management in order to make the *kaizen* (改善) concept deeply entrenched in the minds of our senior and middle managers, who advocate for continuous improvement projects. We provide green belt training courses to our middle managers, line managers and engineers, enabling them to independently carry out six sigma improvement projects. Our Company’s aim is to achieve “zero defects” and to use quality control tools such as Failure Mode and Effect Analysis, Statistical Process Control and Measurement System Analysis, which reduces defect rates and manufacturing costs. We have launched improvement projects such as:

- We applied the lean six sigma process, reducing the thickness variance of steel cord plies, one of the key tire components. The measures taken include the introduction of Honeywell automatic thickness measuring system, the installation of monitoring and alarm systems and the use of blended compounds of different Mooney viscosity.
- We reduced size and weight variances of tire components by applying the lean six sigma methods. The measures taken include the use of automatic weighing scales that reject oversized components, the use of weight recorders to improve weight consistency and the fixing of equipment parameters and procedure.

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- We also aim to improve the consistency of dynamic balance of our product in order to deliver better driving experience. The measures taken include the use of Design of Experiment design methods where the best process and manufacturing technique are selected based on comparative test data, the use of Minitab statistical graph tools in identifying selective measures for reducing data variance.

We have established a centralized energy management system that reduces our Company's overall energy consumptions. Our Company was awarded "Energy Efficiency Leader Enterprise" by the China Petroleum and Chemical Industry Federation in 2015 and 2016, and "Excellent Energy Saving Enterprise in Shandong" by the Shandong Provincial Government in 2017.

Our machinery and equipment

The following table describes our major production machinery and equipment in our production facilities as of March 31, 2018:

<u>Name of the Equipment</u>	<u>Purpose and Features of the Equipment</u>	<u>Country of Origin</u>	<u>Expected Useful Life (Months)</u>	<u>Remaining Useful Life (Months)</u>
Internal mixer	Mix rubber compounds	PRC, Germany	168	106
Cooling machine	Cool rubber compound sheets	PRC	168	113
Calender	Produce rubber compound sheets	PRC, Germany, Italy	168	114
Extruder machine	Produce tread and dual sidewall products	PRC, Germany	168	154
Steel coil winding machine	Wind steel wire and produce bead core	PRC	168	109
Cutting machine	Cut textile and steel plies	Japan, Germany	168	122
Tire building and shaping machine	Assemble tire carcass and belt plies	PRC, Japan, the Netherlands	168	112

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<u>Name of the Equipment</u>	<u>Purpose and Features of the Equipment</u>	<u>Country of Origin</u>	<u>Expected Useful Life (Months)</u>	<u>Remaining Useful Life (Months)</u>
Transport line	Transport green tire	PRC	168	118
Tire curing press	Vulcanize green tires	PRC, United States	168	130

All of our major production machinery and equipment are owned by us.

To ensure our product quality, we only procure production machinery and equipment from brands with strong track records. We also apply inspection equipment to test our machinery and equipment, then conduct maintenance on the relevant machinery and equipment as needed, and replace or upgrade production equipment and machinery when necessary to enhance productivity and functionality. Moreover, we have adopted a “total productive maintenance” procedure that emphasizes on executing preventive measures to maintain our production equipment and avoid production disruption. During the Track Record Period, we did not experience any material interruptions to our production process due to facilities or equipment failure.

QUALITY CONTROL AND CERTIFICATIONS

We are committed to implementing our stringent quality control process, and attain a warranty claim rate of 0.86% in 2017. According to Frost & Sullivan, the PRC industry average taking into account a wide spectrum of tire manufacturers is 1.32% for the same year. We believe such result is attributable to our comprehensive quality management systems that cover the entire product management process, including product development, raw material procurement, manufacturing, sales and after-sales services, and that conform to international standards and customer requirements. We have received IATF16949 certifications, which is an automotive industry quality certification developed by IATF and widely recognized by our customers globally. The certification is valid for three years and is reviewed annually by an IATF-certified auditor of an accredited certification body. Our measurement management system is GB/19022-2003/ISO10012:2003 certified, and our testing lab has received the ISO17025 certification. Our products have also been accredited by CCC in the PRC, DOT in the United States, ECE and R117 in Europe, SNI in Indonesia, SIRIM in Malaysia GSO in the middle-east, and INMETRO in Brazil.

We apply stringent quality controls at each stage of our production process.

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Raw Material: To ensure that our raw materials meet our quality standards, we only use suppliers who have been approved by our inspection process and are subject to our regular internal review/audit. We have also installed automated equipment to screen for raw materials that do not meet our specification. For further details, please refer to subsection headed “– Raw Materials – Procurement of Raw Materials.”

Design/Production: For our new products, we also conduct design certification, trial production and verification of our products before mass production of such product to ensure that it meets our quality standards and our customers’ demand. In addition, we conduct multiple quality tests and inspections during the production process, including weight measurements on work-in-progress products and testing on product components. To reduce any human error during such testing and inspection process, we have implemented automated inspection features that include digitized tire weight (encompassing raw material thickness measurement), temperature and pressure data collection during the vulcanization process. Any irregularity that occurs during any of the aforementioned process would trigger our automated reporting system. Moreover, prior to delivery of our final products, we x-ray inspections and comprehensive testings on selected products based on our customers’ demand, specifications and requirements before delivering them to customers, and we have implemented a product identification and traceability system which allow us to quickly locate and track defective products if need be. Relevant personnel on our sales team could then collect the relevant data over product defect for future product improvement and execute the necessary warranty procedures to ensure customer satisfaction.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we made sales to certain countries subject to International Sanctions, including sales of our tires to certain distributors and delivered to Iran, Sudan, Syria, Afghanistan, Balkans, Belarus, Croatia, Egypt, Eritrea, Lebanon, Libya, Mali, Myanmar, Russia, Somalia, Ukraine, Venezuela and Yemen. Iran and Syria are subject to very comprehensive economic sanctions and Sudan was subject to OFAC’s comprehensive sanctions program up to October 12, 2017. To the best knowledge of our Directors, our revenue derived from sales to the distributors who onward sold our products to the aforementioned countries that are subject to International Sanctions amounted to approximately RMB187.1 million, RMB197.0 million, RMB274.0 million and RMB72.7 million, respectively, representing approximately 5.3%, 5.2%, 5.7% and 5.4% of our total revenue for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. To the best knowledge of our Directors, during April and May 2018, our revenue derived from sales to the distributors who onward sold our products to the aforementioned countries that are subject to International Sanctions amounted to RMB52.8 million. As advised by our International Sanctions Legal Advisor, five payments in an aggregate amount of approximately US\$1,502,473 received from third-party intermediaries with respect to our goods sold to distributors and delivered directly to Iran and Syria appear to be potential violations of U.S. sanctions regulations that are applicable to transactions with Iran and Syria, respectively. For further details and our potential risk exposure, please refer to section headed “Business – Business Activities in Countries Subject to International Sanctions” in this prospectus.

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As noted under “Business Activities in Countries subject to International Sanctions – Sanctions Risk – U.S.” below, we received payments in 2017 in U.S. dollars from one distributor in Iran and one distributor in Syria that may have violated International Sanctions. However, as advised by our International Sanctions Legal Advisors, we have disclosed these transactions to OFAC in our VSD filing, and believe that no material adverse effect on our financial condition will result from these potential violations. Subject to the results of our VSD filing, our sales to distributors in Countries subject to International Sanctions during the Track Record Period do not implicate restrictions under International Sanctions. Further, given the scope of our Global Offering and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisors are of the view that the involvement by parties in the Global Offering will not implicate any applicable International Sanctions on such parties, including the Company, the Company’s investors, shareholders, the Hong Kong Stock Exchange and its Listing Committee and group companies, or any person involved in the Global Offering and accordingly, the sanction risk exposure to the Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of the Shares (including the Hong Kong Stock Exchange, its Listing Committee and related group companies) is very low.

OFAC is currently reviewing our VSD. As of the Latest Practicable Date, our Directors confirm that we have not been notified that any International Sanctions penalties will be imposed on us for our sales and/or deliveries to Countries subject to International Sanctions. Furthermore, none of the counterparties involved in our sales to Countries subject to International Sanctions are specifically identified on the Specially Designated Nationals and Blocked Persons by OFAC or other restricted parties lists maintained by the EU, Australia and UN and therefore would not be deemed as sanctioned targets. Finally, such sales do not involve industries or sectors that were subject to International Sanctions at the time they occurred and therefore are not deemed to be prohibited activities under the relevant International Sanctions laws and regulations.

Sanctions Risk

The U.S. and other jurisdictions or organisations, including the EU, the UN and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries. For a summary of the sanctions regimes imposed by the U.S., the EU, the UN and Australian, please refer to section headed “Regulatory Overview – Sanctions Laws and Regulations” in this prospectus.

U.S.

During the Track Record Period, we had five U.S. dollar payments in an aggregate amount of approximately US\$1,502,473 that appeared to be potential violations of U.S. sanctions regulations relating to Iran and Syria, respectively. We received these U.S. dollar payments from third-party intermediaries with respect to the goods sold to distributors and

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delivered directly to Iran and Syria, which were processed in the U.S. financial system before receipt by our Group. Upon the advice of our International Sanctions Legal Advisors, on March 28, 2018, we submitted a VSD to OFAC to address our potential violations, given that the U.S. financial system cannot process Iran or Syria-related payments denominated in U.S. Dollars without prior authorization by OFAC. Our Directors confirm that these USD-denominated payments did not involve any international wrongdoing but rather were due to a lack of awareness of the applicability of U.S. sanctions to USD payments. To be certain that all of our Group's issues under International Sanctions law had been identified and addressed in the VSD filing, and that no other International Sanctions law or regulations had been implicated by our operations, our International Sanctions Legal Advisors performed the following procedures on our sales to the Countries subject to International Sanctions during the Track Record Period: (a) reviewed our documents that evidence the sale of our products to Countries subject to International Sanctions during the Track Record Period; and (b) reviewed our list of distributors to whom such sales of products have been made during the Track Record Period against the lists of Sanctioned Persons, and confirmed that none of these distributors are on such lists. Our Directors confirm that neither our Group nor any of our affiliates conducted any business dealings in or with any other countries or persons that are the subject of International Sanctions during the Track Record Period except for the sales for which all documentation had been provided to our International Sanctions Legal Advisors.

OFAC is currently reviewing our VSD, and we have not received responses from OFAC as to its rulings or applicable penalty. Our International Sanctions Legal Advisors are working actively to make sure that OFAC has all the required information to resolve this issue. Our International Sanctions Legal Advisor have advised us that, based on their experience in working with companies presenting similar facts before OFAC, that there are a few limited potential outcomes from our VSD submission. First, the most likely result of the VSD will be a cautionary letter issued by OFAC to close out the case without the imposition of any penalty. In the second and less likely outcome, we could be required to pay an administrative penalty for these transactions. The potential in this case include a monetary fine of up to US\$647,822 based on the relevant enforcement guidelines and the payments identified by the Company as possibly being processed through the U.S. financial system, although any such amount likely would be further reduced by OFAC during the negotiated settlement process by taking into account mitigating factors and the most likely amount would range from US\$64,782 to US\$453,474 after mitigation. Based on the value of the five payments that may have been processed through the U.S. financial system, and our discussions with our International Sanctions Legal Advisors, our Directors are of the view that the maximum administrative penalty that we could be required to pay would not have a material adverse effect on our financial condition or results of operations. As advised by our International Sanctions Legal Advisors, our business dealings with distributors in Countries subject to International Sanctions other than Iran and Syria, including Sudan, Afghanistan, Balkans, Belarus, Croatia, Egypt, Eritrea, Lebanon, Libya, Mali, Myanmar, Russia, Somalia, Ukraine, Venezuela and Yemen do not appear to be inconsistent with the applicable U.S. sanctions or U.S. export control laws, given that (i) we have not undertaken, either directly or indirectly, a contract or any other activity with a counterparty, nor have otherwise provided goods or services to any person, in Cuba, North Korea, or the Crimea region of Ukraine/Russia (these countries or territories are currently subject to comprehensive U.S. sanctions) and none of the

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counterparties in Countries subject to International Sanctions have been designated on the SDN List during the Track Record Period; (ii) no services have been exported, directly or indirectly, to any persons or entities identified on the BIS List; and (iii) our business activities in Countries subject to International Sanctions are limited to the sale of tires which U.S. extraterritorial sanctions and U.S. export control laws do not appear to have been implicated.

UN

On the basis that the clients identified as being located in Countries subject to International Sanctions are not specifically designated under any existing UN sanctions regime, and our Group's dealings in the Countries subject to International Sanctions relate solely to the sales of tires, upon the advice of our International Sanctions Legal Advisors, our business dealings do not appear to implicate restrictive measures adopted by the UN.

EU

Upon the advice of our International Sanctions Legal Advisors, our business dealings with respect to the identified distributors in Iran, Sudan, Syria, Afghanistan, Balkans, Belarus, Croatia, Egypt, Eritrea, Lebanon, Libya, Mali, Myanmar, Russia, Somalia, Ukraine, Venezuela and Yemen do not trigger the prohibitions or wider restrictions adopted by the EU, including those extended to the United Kingdom overseas territories, since such business activities were not undertaken by EU or United Kingdom overseas territories persons or entities and are limited to the supply of tires which are not export-controlled in the EU or United Kingdom Overseas Territories or involved in the export from the EU or United Kingdom Overseas Territories of certain listed military or items that are normally used for civilian purposes but may have military applications.

Australia

Upon the advice of our International Sanctions Legal Advisors, on the basis that neither our Company nor any of our subsidiaries are connected to Australia in ways mentioned above and our dealings do not appear to involve products or services that are restricted under Australian export controls, our activities do not implicate the prohibitions or wider restrictions under International Sanctions measures administered and enforced by the Government of Australia.

Our undertakings and internal control procedures

We have undertaken to the Hong Kong Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Hong Kong Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the U.S., the EU, the UN or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions.

In addition, we have undertaken not to enter into any future business that would cause us, the Hong Kong Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors

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to violate or become a target of sanctions laws by the U.S., the EU, the UN or Australia. We will also disclose on the respective websites of the Hong Kong Stock Exchange and our Group if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would expose our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Hong Kong Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Hong Kong Stock Exchange.

From January 1, 2018, we have ceased all business activities in connection with Iran and Syria. Subject to our strict adherence to our internal control and risk management measures that have been fully implemented as at the Latest Practicable Date, we intend to continue our sales and/or deliveries of our tires to customers and/or distributors in Countries subject to International Sanctions other than those that are subject to comprehensive sanctions programs such as Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine. However, our Directors do not expect any material increase in our Group's sales or deliveries to these countries. The following internal control and risk management measures have been fully implemented as at the Latest Practicable Date.

- we have set up and maintained a separate bank account, which is designated for the sole purpose of the deposit and deployment of the proceeds from the Global Offering or any other funds raised through the Hong Kong Stock Exchange;
- to further enhance our existing internal risk management functions, our Board has established a Development Strategy and Risk Management Committee. The members of such committee comprise Che Hongzhi, Wang Chuansheng and Zhang Xuehuo, and their responsibilities include, among other things, monitoring our exposure to sanctions risks and our implementation of the related internal control procedures. Our risk management committee will hold at least two meetings each year to monitor our exposure to sanctions risks;
- we will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in Countries subject to International Sanctions and with Sanctioned Persons. According to our internal control procedures, the Development Strategy and Risk Management Committee needs to review and approve all relevant business transaction documentation from customers or potential customers from Countries subject to International Sanctions and with Sanctioned Persons. In particular, the Development Strategy and Risk Management Committee will review the information (such as identity and nature of business as well as its ownership) relating to the counterparty to the contract along with the draft business transaction documentation. The Development Strategy and Risk Management Committee will check the counterparty against the various lists of restricted parties and countries maintained by the U.S., the EU, UN or Australia, including, without

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limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in Countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters;

- our Directors will continuously monitor the use of proceeds from the Global Offering, as well as any other funds raised through the Hong Kong Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, Countries subject to International Sanctions or Sanctioned Persons where this would be in breach of International Sanctions;
- the Development Strategy and Risk Management Committee will periodically review our internal control policies and procedures with respect to sanctions matters. As and when the Development Strategy and Risk Management Committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and
- if necessary, external international legal counsel will provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.

Our International Sanctions Legal Advisors have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for the Company to comply with our undertakings to the Hong Kong Stock Exchange.

Having taken the above advice of our International Sanctions Legal Advisors into account, our Directors are of the view that our measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us. Subject to the full implementation and enforcement of such measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective internal control framework to assist the Company in identifying and monitoring any material risk relating to sanction laws.

INVENTORY MANAGEMENT, STORAGE AND LOGISTICS

We manage our inventory and storage of raw materials, work-in-progress and finished goods with reference to our product orders, production and delivery plans. We focus on controlling our inventory holding costs, maintaining the variety of products available for our customers and ensuring the prompt delivery of products to customers. We have a proven track record of employing advanced information systems to track inventory levels and storage location as well as ensure adequate levels of raw materials, goods-in-progress and finished products. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage of supply or overstock of inventory.

Product Orders and Production Plan

To strive for the optimal utilization of our facilities while meeting customer demands, we formulate our production plans based on existing orders and an analysis of past orders and the conditions of our production facilities. We then make procurement plans for raw material based on formulated production plans, and adjust production plans and procurement plans according to product orders and market demand.

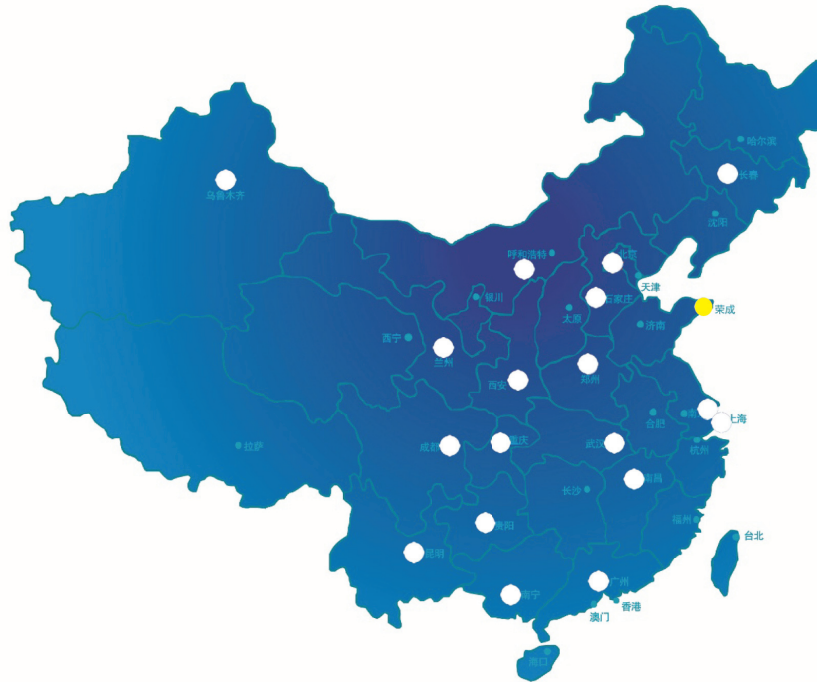
Storage***Raw Material Storage***

We store our raw materials at designated locations in our production facility and have installed regular surveillance in such areas. We ensure that such storage areas comply with relevant regulations and standards, including fire regulations and hazardous material storage standards. We strictly follow the quality management standards under IATF16949 (previously known as TS16949) and implement the digitized recording of raw materials procured on our centralized information system to ensure proper raw material management.

We have entered into storage arrangements to help manage the storage of our finished goods. Such storage facilities that are strategically located in order to enhance our ability to timely deliver our products to our customers. All of such storage facilities meet the fire and safety and other relevant laws and regulations, and our operation was not subject to any material interruption as a result of adverse conditions in our storage facilities.

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The following map illustrates the location of storage facilities that house our final products.



Delivery

We engage reputable transportation companies to deliver our products to customers. For our sales in the PRC, we enter into delivery agreements with relevant Independent Third Party transportation companies that set forth the transportation costs and payment terms as agreed between us and the relevant entity. When required we would also utilize water and railway transportation systems. For our sales to overseas customers, we generally arrange for delivery to locations designated by such customers through logistics providers selected through an open bid. Our agreement with such logistics providers are for three years and set forth the transportation costs and payment terms as agreed between us and the relevant entity. The transportation costs under such agreements are subject to adjustment when fuel costs change materially, and either party is entitled to terminate the agreement with cause or a prior written notice to the other party (without cause). We have been certified by the General Administration of Customs of the PRC as a Customs AEO senior corporation. With such certification, we are eligible for the best exemption, such as exempting us from having to post bonding for export products and qualifying us for the green channel at customs. We believe such certification has helped avoid delays in custom clearance, which in turn helps with our overseas sales.

We require that all of our logistics providers comply with relevant laws and regulations. Our logistics providers must also purchase relevant insurance for transportation and be responsible for any losses caused by damages to products during the transportation process.

BUSINESS INTELLIGENCE AND INFORMATION TECHNOLOGY

We utilize information technology systems to support our operations, procurement, inventory control, sales management, finance and cost control, production planning and overall management function. These integrated applications including enterprise resource planning, distribution management system, master data service, manufacturing execution system and order tracking system forms our information technology system. Through our information technology system, we are able to perform near real-time customized sales analysis on individual products. We then utilize such analysis to adjust purchasing decisions and product offering. We believe our ERP system have been instrumental in supporting our growth over the Track Record Period.

Our enterprise resource planning system is fully integrated with production planning and supply chain management features. Such system allows us to manage the supply chain of the products from receipt of raw materials from suppliers to delivery to customers. The system facilitates the management of inventory items, adheres to the first-in-first-out method and effective overall warehouse and delivery management by tracking various activities including customer orders, purchase orders, inventory level and delivery details. Timely access to the daily inventory of raw materials, work-in-progress products, final products and sales data allows our management to efficiently monitor the resources available, sales performance and make decisions in planning, sourcing, manufacturing, and delivering the products. In addition, benefiting from the ability to monitor the inventory movement and sales data in an effective and systematic manner, we can make appropriate operational adjustments in response to market conditions and customer needs and forecast future demands more accurately. Such measures, in turn, have contributed to our cost management and enhanced our profitability.

We have also installed the manufacturing execution system to monitor our All Steel Radial Tires and Semi-Steel Radial Tires production process. Through the manufacturing execution system, we are able to ensure that each product is produced according to specified technical and functional criteria and to concurrently monitor our equipment condition and achieve full product traceability. We believe such system has enhanced our product quality.

Our information technology system is also capable of combining business data from different sources and producing a near real-time report to facilitate our review of operational results and decision making. For instance, we require that our distributors place purchase orders through our distribution management system, which then uploads the details of such orders onto our enterprise resource planning system to help identify the most efficient way to produce and deliver such product based on existing production plan and inventory data. Such system also allows us to perform a real time assessment of our product demand, which in turn, helps us better plan raw material procurement and production plans. We have also adopted the order tracking system for tracking our overseas orders as part of our effort to support our overseas expansion, and an master data service system to manage our product.

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Our information technology system also centralizes our accounting and reporting procedures and integrates transaction bookings from several modules including procurement and sales for the financial reporting. With integrated financial information gathered from different stages of our business, our management team can better understand the overall performance of the business and make necessary operational adjustments more efficiently.

RESEARCH AND DEVELOPMENT

We have advanced research and development capability and are supported by a well-established state-level corporate technology center. In the past, we have undertaken research projects at the national and provincial level, and have received multiple awards at both the national and provincial level for such effort.

We won science and technology progress awards for our production achievements, including development of a 1.0 million unit high performance radial tire production line, and have received invention patents for various production techniques.

Furthermore, we have established a development center that is a leader in forming multi-dimensional tires with testing capability across the tire lifespan in Shandong.

We were amongst the first to be named by Shandong Economic and Information Technology Committee as one of the pilot innovation centers in the manufacturing sector in 2017. We believe we are well positioned to be a leader in the design and manufacturing of environmental friendly tires in the PRC.

Qingdao Research and Development Center

We study raw materials, tire components and basic tire producing techniques, and conduct computer aided designs and engineering of new tires at our Qingdao Research and Development Center. We believe the vicinity of Qingdao to higher institutions allow us to better attract the research and development personnel necessary for our development. We also collaborate with various universities, research institutions and industry participants, including Beckart Technology Research & Development Ltd. (貝卡爾特(中國)技術研發有限公司) and enter into legally binding agreements to test and develop new products and tire designs. We are generally responsible for contributing the equipment and necessary materials to such research projects when testing the new products as designed by such higher institutions. Pursuant to the relevant research and development agreements we entered into with our partners, we enjoy all or part of the proprietary rights to the results of such projects with our project partners jointly or respectively, unless we otherwise designate.

Rongcheng Research and Development Center

Responsibility of transforming our research results at Qingdao Research and Development center into commercially viable products rests with our Rongcheng Research and Development Center. We believe Rongcheng Research and Development Center's vicinity to

our production lines allows us to more efficiently manage the mass production of newly developed tire, apply the new raw materials and full tire products. Such arrangement also allows us more quickly adjust new product designs prior to mass production, which we believe contributes to both our cost management and product quality.

We also formed enterprise-university-research institute collaboration schemes with higher education institutions, including Qingdao University of Science & Technology, Jilin University and Harbin University of Science and Technology. We have established a postdoctoral research workstation to attract research talent and incentivize innovative research activities. The adoption and commitment to such research scheme has helped us accumulate valuable industry knowledge, which we believe have been instrumental to us introducing valued price-to-performance products that meet consumer demand. Ownership of the research results to be derived from such research schemes will either be jointly owned by the participating parties, or each participating party to own the part(s) of the research results it developed through the collaboration. We have also undertaken the formulation of a number of ministerial and national science and technology plans, and have played a major role in formulating the guiding principles for the 13th five-year development plans for the tire industry of China.

We have also been able to successfully implement our research and development results into marketable products, which have helped us hone in advanced technical capability that meet the requirements of advanced markets, such as SmartWay regulation in the United States and relevant standards in the European Union. We believe that our research and development capability are indispensable to our future growth. In light of the heightened environmental regulations and industry standard on tire products implemented in various major markets, we focus our research and development efforts on better understanding of new raw materials, creating a more comprehensive portfolio of performance-driven and environmental friendly products and advancing our production capability and process. As of March 31, 2018, our research and development team consisted of 87 personnel, of which over 85.1% have bachelor's or higher degrees. Our research and development team is headed by Mr. Liu Changbo, who has over 25 years of experience in the tire industry and is a recipient of a national science and technology progress award for his contribution to developing a 300,000 per year radial tire production line. During the Track Record Period, we expensed all of our research and development expenses, which primarily consisted of salaries and benefit cost of our research and development staff, depreciation of testing equipment and service and management fees. For details of our research and development expenses incurred during the Track Record Period, please refer to "Financial Information – Description of Key Consolidated Statement of Profit or Loss Line Items – Research and Development Costs". Our research and development efforts focus on the following areas:

Development of value-added products. We prioritize our research and development efforts on higher value-added products to differentiate ourselves from other tire manufacturers. Over the years, we have successfully developed a wide range of value-added products, including:

- Low rolling resistance tires that allow vehicles to enjoy better fuel efficiency. In general, a reduction of 5% in tire rolling resistance can reduce fuel consumption by approximately 1%. Such products include SUV tires with low rolling resistance that

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we developed specifically to meet R117 regulations of the EU, and green tires with low rolling resistance that have been identified by the relevant authorities and meet the US, Chinese, and EU standards.

- Semi-Steel Radial Tires with asymmetric tread pattern. The car radial tires that are designed with asymmetric tread pattern have good high-speed performance and low rolling resistance while reducing tire noise. In 2012, this type of tires was rated as national key new product.
- Winter tires that reduce the braking distance on snowfield by approximately 30% compared to non-winter tires, which we believe can increase the safety of vehicles driving on snow or ice or mixed snow and ice road conditions.
- Flat and safe tires that are designed to ensure that, in case of a loss of tire pressure during travel, a vehicle can continue to be driven at a certain speed for a certain distance without obvious reduction of the vehicle's mobility and ride comfort, thus increasing the safety of the vehicle and ease of maintenance. The biggest difference between a run-flat tire and an ordinary tire is that it has a sturdy and self-supporting tire body, which can help ensure the tire and the rim work together to give the vehicle a certain support so as to assure the vehicle's safety in the event of a loss of air in the tire.
- Puncture-resistant radial mining tire that is suitable for mining sites and has a strengthened tire structure. This product has a large load capacity and strong chipping resistance.
- All Steel Radial Tire that adopts a bionic 3D groove bottom design whereby scale-like 3D protuberances at the bottom of the tire's broad tread groove are designed so that when the tread deforms under pressure, the "scales" can produce various flexible deformations, thus effectively increasing the tire's traffic ability and self-cleaning ability on complicated roads.

Improvement of production process. We continue to invest in improving our existing manufacturing equipment to streamline our production process and improve our production capability and manufacturing efficiency. Such projects include:

- Completed the development of an automated-vulcanization process that is augmented by a centralized computational system, which we believe that automated-vulcanization can greatly improve the precision of tire production process.
- Developed an automated low-temperature raw material mixing procedure that materially reduced electricity and steam consumption and elevated production efficiency, which we believe contributed to us becoming a PRC-leading tire manufacturer in terms of operational efficiency.

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- Re-engineered production process for our All Steel Radial Tires to reduce storage time for work-in-progress products in the manufacturing facility during the production process. Such measures included the adoption of digitized inventory management and re-designed material supply process allowed more efficient use of production space and production capacity.

We develop new products based on feedbacks we received from our customers, research and analysis of market trend, and requirements of our vehicle manufacturer and Private Label customers' specifications. We closely collaborate with our customers in the product development process, which we believe has helped us identify potential manufacturing and design problems at an early stage and avoid costly redesign at a later stage. Also, this co-design and development capability enables us to develop tires that best meet the demand and needs of our customers and their end-users.

National Standards

We have been invited by relevant authorities to participate in the formation of industry standards in the PRC in the past. Such standards include: (i) GB/T26277-2010 Test method for measuring electrical resistance of tires; (ii) GB/T 18861 Methods for testing rolling resistance of motor vehicle tires; and (iii) HG/T 2728 Rubber, determination of density – direct reading method. We have also participated in the preparation of GB/T 3780.2-2017 Carbon black – Part 2: Determination of oil absorption number and GB/T 3780.10-2017 Carbon black – Part 10: Determination of ash content, two national standards. The Tire Classification Standard (mainly including rolling resistance, wet grip, tire-to-road sound emission and some other parameters of tires), an association standard, in the preparation of which we participated has been named by the MIIT as one of the 2017 Association Standard Application Demonstration Projects. As of the Latest Practicable Date, we have participated in the formation of 20 other national standards for the tire industry in the PRC. Such on-going projects includes studies in a wide variety of industry standards that include developing (i) the standard for the limits for and classification of rolling noise of motor vehicle tires, (ii) the standard for the limits for and classification of wet grip index of motor vehicle tires, (iii) the standard for the limits for and classification of rolling resistance of motor vehicle tires, (iv) the standard for puncture-proof run-flat motor vehicle tires, (v) the method for testing ground contact pressure distribution of motor vehicle tires, and (vi) laws and regulations on environmental protection, energy consumption, and safety of production facilities in the rubber industry. We believe our level of participation in the formation of industry standards is a testament to our technical strength and leading position in the industry.

INTELLECTUAL PROPERTY

We rely on a combination of patents, trademarks and trade secrets, domain name registrations, as well as confidentiality undertakings of employees and third parties to protect our intellectual property rights. As of Latest Practicable Date, we had 87 registered patents in the PRC, including nine invention patents. As of the same date, we had 29 registered trademarks in the PRC and one registered trademark in Hong Kong. Our trademark for **PRINX** been granted with registration certificate in 13 countries and regions and granted with international trademark registration certificate, and has been registered with the EU, Australia and other countries. Further, Our trademark for **CHENGSHAN** has been granted with registration certificate in 16 countries and regions and granted with international trademark registration certificate, and the countries in which it has been registered include various members of the EU and Malaysia. In addition, our trademarks for **AUSTONE** and **FORTUNE** have been granted with registration certificate 15 and nine countries and regions respectively and both have been granted with international trademark registration certificate, and the countries in which it has been registered include Malaysia and various members of the EU. Also, our trademark for  has been granted with registration certificate in 8 countries/regions and granted with international trademark registration certificate, and the countries in which it has been registered include various members of the EU.

Our contracts with employees and suppliers generally contain confidentiality provisions to protect our proprietary information and know-how. In addition, our research and development personnel have entered into confidentiality agreements acknowledging that all inventions, designs, trade secrets, works of authorship, developments and other processes generated by them during their employment are our property.

We closely monitor industry developments and the new products and technologies of our competitors to identify potential infringement of our intellectual property rights. During the Track Record Period and up to the Latest Practicable Date, we did not experience any infringement of our intellectual property rights which had a material adverse effect on our business.

In addition to protecting our own intellectual property, our success also depends on our ability to minimize the risk that any of our products or operations infringes the intellectual property rights of others. In designing and developing our new products, our research and development team conducts patent searches to ensure that we do not infringe any existing patent owned by third parties. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any pending or threatened claims against us relating to our alleged infringement of intellectual property rights owned by third parties.

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AWARDS AND ACCREDITATION

The following table sets forth some of the significant awards and certifications we have received from independent entities:

<u>Awards/Certificate</u>	<u>Awarded by</u>	<u>Year</u>
Single Champion in the Manufacturing Industry in Shandong Province	Shandong Economic and Information Technology Committee	2018
China's Top Ten Tire Brand	World Brand Lab	2017
Shandong Brand Product	Office of Shandong Quality Province and Brand Strategy Promotion Work Leading Group (山東省質量強省及品牌戰略推進工作領導小組辦公室)	2017
Quality Benchmark for China Petroleum and Chemical Industry	China Petroleum and Chemical Industry Federation	2017
Excellent Enterprise of Shandong on Integration of Information and Industrialization	Promotional Center of Integration of Information and Industrialization in Shandong Province (山東省信息化與工業化融合促進中心)	2017
Quality Benchmark for China Petroleum and Chemical Industry	China Petroleum and Chemical Industry Federation	2017
Information and Industrialization Integration Management System Certificate	MIIT Electronics No. 5 Research Institute; CEPREI Certification Body	2017
Outstanding Contribution Entity of China Rubber and Plastics Industry Information Construction	Rubber and Plastics Science Design Expert Committee of China Petroleum & Chemical Engineering Survey and Design Association;	2017
	National Rubber and Plastics Machineries Information Center;	
2015 Top Ten Influential Brands of Chemical and Rubber Industry Award "Gold Rubber Award"	Rubber and Plastics Techniques and Equipment Magazine	2015
	CIRI Expo Organizing Committee	
CGMA Excellent Practice of Management Accounting of The Year 2015	Chartered Global Management Accountant	2015

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<u>Awards/Certificate</u>	<u>Awarded by</u>	<u>Year</u>
Enterprise Innovative Development Award	China Rubber Industry Association	2015
Advantaged Brand Award	China Rubber Industry Association	2015
2015 China's Top Ten Explosion Prevention Automobile Tire		2016
The Second China Charity Outstanding Contribution (Enterprise) Award	China Charity Federation	2014
China Quality Integrity Enterprise	China Export Inspection and Quarantine Committee	2013

We are also a member of the following organizations in the rubber and/or tire industry:

<u>Organization</u>	<u>Position</u>	<u>Year</u>
Shandong Provincial Rubber Industry Association (山東省橡膠行業協會)	Vice President	2012
Tire Dynamics Cooperative Innovation Alliance (輪胎動力學協同創新聯盟)	Vice President	2017
China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會)	Member	2012
Tire Sub-Committee of China Rubber Industry Association (中國橡膠工業協會輪胎分會)	Vice president	2015
China Tire and Tire Steel Standardization Technical Committee (全國輪胎輪輞標準化技術委員會)	Member	2012
Shandong Provincial Standardization Association (山東省標準化協會)	Member	2017
Specialty Equipment Market Association	Member	2017
ITMA (Imported Tire Manufacturers Association) 歐洲 ITMA (歐洲輪胎進口商協會)	Member	2016

COMPETITION

We primarily compete against domestic manufacturers in both the All Steel Radial Tire and Semi-Steel Radial Tire markets. The tire markets are highly competitive. Customers typically rigorously evaluate suppliers. Factors affecting our competition include product quality, technical capability, product design, pricing, payment terms, delivery speed, customer services and brand recognition. As tire is a core and safety component to transportation, there are high barriers to entry to the tire manufacturing market, including the capital and technical capability required for research and development of new products, and limited access to relevant technology. Please see “Industry Overview – Competitive Landscape” for further details.

PROPERTIES**Owned Properties**

As of the Latest Practicable Date, we held the land use rights to two parcels of land in the PRC with a site area of 480,087.85 sq.meters and 40 real estate ownership certificates for properties with gross floor area of 411,450.10 sq.meters on the above two parcels of land.

Historically, we did not obtain the relevant real estate ownership certificates for certain buildings we own. The defects were mainly caused by historical reasons. Since the beginning of 2018, we have remedied such defects by obtaining or renewing real estate ownership certificates except for three properties. As of the Latest Practicable Date, we have not obtained the real estate ownership certificates for three buildings which accounts for 2.98% of the aggregate gross floor area of our owned properties, and 2.83% of our owned properties and leased properties. Such buildings also account for approximately 0.05% and 0.09% of our total assets and net assets, respectively, as of March 31, 2018. These buildings are used for the temporary storage of tires.

We do not have the necessary real estate ownership certificates for the three buildings, we may be (i) requested by the relevant authorities to take remedial actions within a certain period of time, (ii) requested to demolish the property, and/or (iii) subject to fines. Based on compliance certificates obtained by us from competent authorities, our PRC Legal Advisers consider that the risk of enforcement and penalty by the competent local authorities is remote. If we are subject to any penalty, Chengshan Group will indemnify us.

As of the Latest Practicable Date, we had not experienced any material adverse effect on our business operations as a result of the above-mentioned properties for which we have not obtained the real estate ownership certificates, nor have we been informed by the government authorities or anyone else that we must cease using the above-mentioned properties. If we are required to relocate or demolish the properties, we will promptly demolish and relocate to alternative premises with full title certificates or legally leased and the cost of such relocation and demolition will not have a material adverse effect on our operations and financial condition. Our Directors are of the view that since the above three properties with title defects

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are not used for our production, and both the net book value and gross floor area of these properties only account for a very small percentage of our total assets and properties respectively, none of these properties whether individually or collectively, are crucial to our operation.

Pursuant to applicable PRC laws, rules and regulations, we may not legally transfer, mortgage, or otherwise dispose of such properties before we obtain the relevant real estate ownership certificates.

Pursuant to Rule 5.01B(2) of the Listing Rules, if the carrying amount (as defined in Rule 5.01(1) of the Listing Rules) of a property interest (as defined in Rule 5.01(3) of the Listing Rules) is or is above 15% of its total assets (as defined in Rule 5.01(4) of the Listing Rules), the prospectus shall include the full text of valuation report for such property interest. Pursuant to Chapter 5 of the Listing Rules, this prospectus is not required to include valuations of our properties.

Leased Properties

As of the Latest Practicable Date, we leased and occupied four properties in the PRC with an aggregate gross floor area of 22,877.97 sq.meters. for our offices, staff canteen and dormitories.

As of the Latest Practicable Date, we have not been subject to any material claim arising from or in connection with any defect in our leasehold interest in any of our leased properties.

EMPLOYEES

As of March 31, 2018, we employed 4,385 employees in total. All our employees work on a full-time basis, and only a small portion of them are located outside the PRC. The number of our employees classified by function is as follows:

<u>Functions</u>	<u>Number of Employees</u>	<u>% of total</u>
Production	2,837	64.7%
Maintenance	538	12.3%
Quality Control	363	8.3%
Sales & Marketing	254	5.8%
Procurement & Logistics	145	3.3%
Research & Development	87	2.0%
Others	161	3.7%
Total	<u>4,385</u>	<u>100.0%</u>

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The total number of employees includes 365 independent contractors whom we engaged through third-party human resources agencies. There is no labor contract relationship between the independent contractors and us, and the independent contractors enter into labor contracts with the relevant third-party human resources agencies. We make salary payments, social security contributions and other related payments for the contractors to these third-party human resources agencies. The third-party human resources agencies, in turn, make salary payments to the independent contractors, social security contributions and other related payments to the government entities.

We consider the recruitment, training and retaining of the technicians as an important component of our business. In case any division or workshop has the need for any special personnel after reviewing its business needs, our recruitment process will be started. We recruit employees from various sources, including certain universities, internal application, head-hunting companies, recruitment fair, ads and Internet. The applicants will be subject to the internal review and interview by the selection team. We will provide training courses for the employees to develop their skills, because the relevant skills are required by us to meet the company target, customer demand, custodial and regulatory requirements and contractual obligations. In addition, we adopt employee incentive plans designed for attracting, retaining and motivating employees to encourage the employees to contribute to creating values for our company and our shareholders. The full-time employees (except independent contractors) also enjoy various employee benefit plans, including pension program, extended disability benefits and workers compensation.

We also have established a labor union in accordance to relevant regulations. As of March 31, 2018, our trade union has 3,872 members represented by 130 representatives. Our union actively provides benefits to employees, strives to protect our employees' legal rights, and provides relief to employees in need and organize cultural and sports activities for employees. During the Track Record Period and up to the Latest Practicable Date, we did not have a record of significant labour dispute with or strike from our employees.

RISK MANAGEMENT AND INTERNAL CONTROL

We believe that effective risk management and internal control is critical to our success. We have established comprehensive risk management and internal control processes through which we monitor, evaluate and manage the risks that we are exposed to in our business activities. We have adopted, or expect to adopt before the Listing, a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. In particular, such measures include:

- the engagement of an independent internal control consultant and adoption of the improvement measures recommended by such consultant;
- the establishment of the Audit Committee responsible for overseeing the financial records, internal control procedures and risk management systems of our Company;

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- to further enhance our existing internal risk management functions, our Board has established a Development Strategy and Risk Management Committee. The members of such committee consists of three members, namely, Che Hongzhi, Zhang Xuehuo and Wang Chuansheng, and their responsibilities include, among other things, monitoring our exposure to sanctions risks and our implementation of the related internal control procedures. Our Development Strategy and Risk Management Committee will hold at least two meetings each year to monitor our exposure to sanctions risks;
- the appointment of Messis Capital Limited as our compliance advisor upon the Listing to advise us on compliance with the Listing Rules;
- the engagement of external legal advisors to advise us on compliance with the Listing Rules and to ensure we will not be in breach of any relevant regulatory requirement or applicable laws, where necessary; and
- providing trainings to our relevant employees on the regulatory requirements and applicable laws to sanctions related matters.

We have taken steps to ensure the effective implementation of our internal control system by establishing a team to organize and review our internal control system and by providing guidance to our Directors, senior management and employees with respect to our internal control policies and the duties and responsibilities of directors and management of listed companies under the Listing Rules and other applicable laws and regulations.

INSURANCE

As of the Latest Practicable Date, we have maintained insurance coverage that is relatively comprehensive for our industry including, but not limited to, property all risks insurance, export credit insurance, public liability insurance, employer liability insurance, business interruption insurance and product liability insurance. In order to cover our Group from liability, we maintain policies of a nature and amount that we consider adequate and evaluate from time to time such policies based on our past experience, production changes and industry developments. Apart from the product liability insurance coverage, we strive to minimize the risk of product liability claims, warranty claims and product recalls through stringent quality control. See “– Quality Control and Certifications.” Furthermore, in cases where one or more of our suppliers is determined to be at fault, in whole or in part, we will evaluate seeking indemnification or contribution (as appropriate), from such supplier pursuant to the terms and conditions of the supply contracts with the relevant supplier, taking into account various commercial considerations, including, but not limited to, the amount sought, such supplier’s financial viability and the risk of disruption in the supply of products to us and our customers as a result of a possible claim by us for indemnification or contribution. Please see “Risk Factors – We may be subject to product liability or warranty claims that are beyond our insurance coverage which could result in significant direct or indirect costs, or we could experience greater produce returns than expected, which could harm our business and operating results.”

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During the Track Record Period and up to the Latest Practicable Date: (i) there were no known material product liability claims filed against us or by our Group on our Group's product liability insurance; and (ii) we have not (A) received any significant customer complaints or (B) participated in any recalls by our customers involving any of our products, either of which would have a material adverse effect on our business, financial condition and results of operations.

TAXATION

We are subject to various tax benefits and jurisdiction-specific tax arrangements. For more information regarding the tax arrangements in jurisdictions we operate in, see "Financial Information – Factors Affecting Our Group's Results of Operations – Our Tax Rates," "Risk Factors – Risks Related to Our Business and Industry – Under the EIT Law and other PRC tax laws, we may be classified as a "resident enterprise," which could result in unfavorable tax consequences to us and our non-PRC shareholders," "Risk Factors – Risks Related to Our Business and Industry – The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition."

OCCUPATIONAL HEALTH AND SAFETY

We are subject to various laws and regulations regarding work-related incidents. We have implemented safety measures at our production facility to ensure compliance with applicable regulatory requirements and to minimize the risk of injury to employees. We have implemented health and work safety guidelines for all our employees which set out our health and work safety policies, a process of recording and handling accidents and promote health and safety on work sites. We have also commissioned safety training companies to conduct safety evaluation and provide the necessary training for our employees to promote safe manufacturing practices at our manufacturing plant. Furthermore, we established a production safety committee to oversee the safety measurements at our production facility. We believe these measures help reduce the number and seriousness of work injuries of our employees and are adequate and effective to prevent serious work injuries.

Our occupational health and safety goals are to minimize work-related injuries. We post health and safety communications in our plants to keep our employees up-to-date on our health and safety goals. During the Track Record Period, we have complied with the relevant workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which would materially and adversely affect our business, results of operations and financial condition.

ENVIRONMENTAL COMPLIANCE

We are subject to the requirements of environmental and safety and health laws and regulations in the countries in which we operate. These include laws regulating air emissions, water discharges, and hazardous materials and waste management. During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any fines or administrative penalties due to failure of compliance with environmental protection-related law and regulations.

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We cannot assure you that environmental requirements will not change or become more stringent over time or that our eventual environmental remediation costs and liabilities will not exceed the amount of our current reserves. In the event that such liabilities were to significantly exceed the amounts recorded, our results of operations could be materially affected. See “Risk Factors – Risks Related to Our Business and Industry – We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities.”

During the Track Record Period, we have invested a total of approximately RMB23.6 million to install environmental protection facilities.

We expect administrative measures to intensify and environmental protection regulations to tighten in the future. In order to mitigate the increasing risk of non-compliance with applicable environmental laws and regulations, we plan to increase investment in gas treatment and ammonia nitrogen online monitoring instrument, including a lump sum of RMB25.8 million.

MATERIAL PERMITS

The material permits required to conduct our business in the PRC primarily include environmental related permits. For more information regarding the PRC laws and regulations that we are subject to, please see the section headed “Regulatory Overview” in this prospectus.

The following table sets forth the details of our material permits as of the Latest Practicable Date:

<u>Certificate/ license/permit</u>	<u>Issuing authority</u>	<u>Certificate/ license/ permit holder</u>	<u>Date of latest issue</u>	<u>Expiry date</u>
Environmental Protection Permit (環保許可證) (including Water Pollutant Discharge Permit (排放水污染物許可證), Solid Waste Discharge Permit (排放固體廢棄物許可證), Noise Emission Permit (排放噪聲許可證) and Air Pollutant Emission Permit (排放大氣污染物許可證))	Rongcheng City Environmental Protection Department (榮成市環境保護局)	Prinx (Shandong) Tire	March 1, 2018	February 28, 2019
Radiation Safety Permit (輻射安全許可證)	Weihai City Environmental Protection Department (威海市環境保護局)	Prinx (Shandong) Tire	March 26, 2018	March 25, 2023

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<u>Certificate/ license/permit</u>	<u>Issuing authority</u>	<u>Certificate/ license/ permit holder</u>	<u>Date of latest issue</u>	<u>Expiry date</u>
Municipal Drainage Permit (城市排水許可證)	Rongcheng City Water Supply and Drainage Management Office (榮成市城市供排水管理處)	Prinx (Shandong) Tire	April 8, 2016	April 8, 2021
Water Extraction Permit (取水許可證)	Rongcheng City Water Resources Department (榮成市水利局)	Prinx (Shandong) Tire	September 4, 2018	September 3, 2021

The Group has currently engaged a third-party service provider for the disposal of hazardous wastes. The relevant third-party service provider hold operation permit for hazardous wastes (危險廢物經營許可證).

As advised by our PRC Legal Advisers, as of the Latest Practicable Date, we have obtained all requisite licenses and permits that are material for our business operations in the PRC. All of these licenses and permits remain in full effect, and no circumstances exist that would render the renovation or cancellation of our licenses and permits or have legal impediment to our business operations in the PRC, as long as we comply with relevant legal requirements and take all necessary steps and submit relevant applications in accordance with the requirements prescribed by the applicable PRC laws and regulations.

REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS

From time to time we are subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, breach of contracts, product warranties, intellectual property matters, and employment-related matters.

Legal Proceedings

We are subject to legal proceedings and claims that arise in the ordinary course of business. During the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, claim or arbitration of material importance and no material litigation, claim or arbitration of material importance is known to our directors to be pending or threatened against any member of our Group.

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You should read the following information in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, included in the Accountant's Report in Appendix I to this prospectus, together with the accompanying notes. Our consolidated financial information have been prepared in accordance with HKFRS which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contain forward-looking statements about events that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a leading domestic tire manufacturer in the PRC Commercial All Steel Radial Tires replacement market and a major domestic tire manufacturer in the PRC. We have a well-established and comprehensive global sales network that covers major tire markets. As of March 31, 2018, our products were sold all over the world through more than 400 distributors. We established direct sales channels with some of the vehicle manufacturers, including Sinotruk Group, Jiangling Auto, China FAW, Dongfeng Liuqi, SAIC Hongyan, and Qingling Auto. Our products are utilized on new vehicles produced by 24 vehicle manufacturers. We have built a strong revenue stream from sales to distributors in the replacement tire market as such market is less cyclical, while at the same time established relationships with vehicle manufacturers to tap into markets with better margins. Over the years, we have also successfully implemented new sales models that are supported by our aftersales team to better meet the demands of our customers.

Our revenue increased from RMB3,521.9 million in 2015 to RMB3,821.7 million in 2016 and to RMB4,840.4 million in 2017. Our revenue increased from RMB1,275.1 million in the three months ended March 31, 2017 to RMB1,355.7 million in the three months ended March 31, 2018. We derived a substantial portion of our revenue from sales of All Steel Radial Tires and Semi-Steel Radial Tires business, whereby sales contributed from the two businesses products constituted approximately 93.8%, 94.4%, 95.7% and 97.6% of our total revenue in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Our net profit was RMB163.1 million, RMB291.2 million, 173.6 million and RMB108.4 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Our net profit before losses from fair value change of convertible redeemable preferred shares, was RMB167.7 million, RMB346.2 million, RMB230.3 million and RMB108.4 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Fluctuation of Raw Material Cost

Raw materials accounted for a substantial portion of our production costs, representing 68.2%, 74.5%, 78.4% and 68.1% of total cost of sales in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Rubber, carbon black and steel wire cords are the primary raw materials applied to produce All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires, and our production system consumes a substantial amount of other auxiliary raw materials every year. The prices of rubber have fluctuated during recent years, and continuing volatility in the prices for our raw materials may have adverse effects on our business, financial condition and results of operations. In particular, both the prices of natural and synthetic rubber experienced a sudden increase at the end of 2016 and then started to fall in the end of March 2017, according to Frost & Sullivan. Natural rubber price increased from RMB10,600 per ton in August 2016 to RMB18,450 per ton in March 2017, before falling down to RMB13,325 per ton in August 2017, according to Frost & Sullivan. Synthetic rubber price experienced a similar trend. Such fluctuation in rubber prices was a main factor that contributed to the decrease in our gross profit margin from 2016 to 2017. Average natural rubber price decreased by approximately 35.3% from RMB18,650 per ton in the three months ended March 31, 2017 to RMB12,075 per ton in the three months ended March 31, 2018, which contributed to the increase in our gross profit margin and net profit margin in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. For more details on raw material prices, please refer to “Industry Overview – Competitive Landscape of China Domestic Brand Automotive Tire Market – Price Trend of Major Raw Materials”.

Conversely, fluctuation of steel price generally has less impact on our results of operations compared with that of rubber prices. Cost of steel accounted for a smaller percentage of our total cost compared with cost of rubber during the Track Record Period, and we believe we have certain bargaining power over our steel suppliers due to market competition in the steel industry. We make regular analysis of steel price and adjust our purchase volume accordingly. As such, we did not enter into any derivatives or similar transactions to hedge steel price fluctuation during the Track Record Period and do not plan to do so in the foreseeable future.

Prices of raw materials in the global market are affected by many factors, as such its fluctuation is in general difficulty to predict. Our historical results, to the extent they were significantly impacted by fluctuation of raw material prices, are not necessarily indicative of future performance.

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For illustration purpose only, the following sensitivity analysis sets forth the estimated impact of hypothetical fluctuations in our average price of consumed rubber on our profit before income tax for the periods indicated, assuming all other factors affecting our profitability had remained unchanged.

	Impact on profit before tax				
	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Change in rubber price					
-/+ 5%	+/-49,993	+/-59,022	+/-87,887	+/-26,497	+/-16,960
-/+ 10%	+/-99,987	+/-118,044	+/-175,773	+/-52,994	+/-33,920

Our Pricing Power

We will continue our efforts to pass raw material price increases on to our customers. However, competition may limit our ability to do so in a timely manner, especially when the raw material prices fluctuate significantly in a short period of time, because our customers are generally not obligated to accept our proposed price increases. Even when we are able to pass price increases on to our customers, there can be delays before we are able to mitigate the negative impact on our financial condition and results of operations.

Moreover, pricing pressure in the automobile industry faced by our customers could in turn negatively affect our sales price. Cost-cutting initiative adopted by our vehicle manufacturer customers can result in downward pressure on the pricing of our products. If we are unable to generate sufficient production cost savings in the future, such as improving our operating efficiencies and reducing expenses, to offset price reduction pressure, our financial condition and results of operations could be materially and adversely affected.

Our pricing power also depends on our ability to differentiate our products from competing products based on product quality, brand recognition, customer service and other factors. We must continue to enhance the quality of our existing products and develop new products in response to new market needs to compete effectively in the industry. Our ability to compete effectively will significantly affect our business, financial condition and results of operations. For more details on market competition and its effect on our business operations and financial condition, please refer to “Business – Competition.”

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Development of the Automobile Industry

Our business is directly related to vehicle sales and production and our revenue growth depends on the market demand for tires, which in turn depends on the development of the PRC and the global automobile industry. The PRC's vehicle production grew from 19.2 million units in 2012 to 29.0 million units in 2017, representing a CAGR of 8.5% during such period, according to Frost & Sullivan. We expect that the PRC's relatively low vehicle penetration rate, increasing urbanization rate and rising disposable income will continue to drive the demand for vehicles. According to Frost & Sullivan, the PRC's vehicle production volume is expected to grow at a CAGR of 6.5% from 2017 to 2022. The growth of the PRC's vehicle industry, however, may be hindered by a number of factors, including energy shortage, change in tax incentive and subsidies, as well as government policies to limit new vehicle purchases in the PRC. As we derive a substantial portion of our revenue from the sale of tires to vehicle manufacturers in the PRC, a slowdown of the PRC's automobile industry and the consumer market in general could negatively impact our business, financial condition and results of operations.

At the same time, the global automobile industry is highly correlated to global macroeconomic conditions. Any changes to the macroeconomic conditions could lead to disruption in the global vehicle production market, which in turn, would affect the demand for our products. Although global vehicle production volumes have stabilized during recent years, we expect the uncertainties in the global economy will continue to cause fluctuations in demand for vehicles, which may in turn affect the volume of purchases of our products by our customers.

Government Policies and Trade Restrictions in Overseas Jurisdictions

Sales to overseas market accounted for a significant portion of our revenue and we are subject to various government policies and trade restriction in the jurisdictions we conduct our business. Protective measures imposed by foreign countries to regulate import and subsidize local businesses, such as anti-dumping and anti-subsidy duties, tariffs or quota fees, could significantly increase the prices of our products sold in such countries and as a result reduce the competitiveness of our products. For example, our sales in the U.S. was negatively impacted by the anti-dumping and countervailing order implemented by the U.S. Department of Commerce in August 2015. For more details, please refer to "Risk Factors – Risks Related to Our Business and Industry – Our operating results are subject to various international trade regulations, quotas, tariffs and duties, including anti-dumping and anti-subsidy." We have limited measures to counter such government policies and trade restrictions. In addition, it is generally difficult to predict when and how government policies and trade restrictions may be implemented. As such, our results of operations and financial conditions are affected by, and subject to, the uncertainty of government policies and trade restriction in overseas jurisdictions.

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Our production capacity and utilization rate

We need to continue to expand our production capacity while maintain a healthy utilization rate. Our customer demand and brand image might be negatively affected if we cannot satisfactorily meet customer demand in our product when such demand increases, while a low utilization rate due to overcapacity may negatively impact our profit margin.

The utilization rates for both our All Steel Radial Tires and Semi-Steel Radial Tires production lines increased year to year during the Track Record Period. The utilization rates for All Steel Radial Tires were 76.0%, 91.9%, 96.0% and 95.8% in 2015, 2016, 2017 and three months ended March 31, 2018, respectively. In particular, utilization rates for 2016, 2017 and three months ended March 31, 2018 were close to full capacity. The utilization rate for Semi-Steel Radial Tires was 56.5%, 65.7%, 85.7% and 80.7% in 2015, 2016, 2017 and three months ended March 31, 2018, respectively. As such, it is important for us to continue to expand our production capacity to meet increasing market demand, in particularly our production capacity of All Steel Radial Tires, in the foreseeable future. At the same time, we need to execute expansion plan in a prudent manner based on our analysis of historical market trend and estimation of future market growth to avoid over capacity. For more details on our utilization rate, please refer to “Business – Production Facilities and Production Capacity – Production volume, production capacity and utilization.”

Our Tax Rates

Our effective tax rate in 2015, 2016, 2017 and the three months ended March 31, 2018 was 44.9%, 15.9%, 17.4% and 13.6%, respectively. For more details, please refer to the section headed “– Description of key consolidated statement of profit or loss line items – Income tax expenses”. The fluctuation of effective tax rates were due to a number of factors, including both one-off events such as withholding tax paid in connection with dividend distribution and recurring factors such as applicable tax rates to our various operating entities. In particular, our effective tax rate in 2015 was mainly attributable to a one-off provision of RMB89.8 million of withholding tax on a dividend distribution in connection with the Reorganization.

Our subsidiaries in the PRC are subject to taxes in the PRC. The applicable income tax rate in the PRC is 25% except for Prinx (Shandong) Tire that is currently taxed at preferential tax rates at 15% as it is qualified as an “High and New Technology Enterprises”. Termination, revision or lapse of the various types of preferential treatment mentioned above would have a negative impact on our results of operations and financial condition. See “Risk Factors – Risks Related to Our Business and Industry – The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition.”

FINANCIAL INFORMATION

Foreign Currency Exchange Rates

During the Track Record Period, we generated revenue equivalent to RMB1,612.7 million, RMB1,654.7 million, RMB1,993.8 million and RMB523.9 million from sales to customers overseas in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, which accounted for 45.8%, 43.3%, 41.2% and 38.6% of our total revenue in the same periods. A significant part of such overseas revenue was denominated in the U.S. dollar. In addition, we made purchase of natural rubber and synthetic rubber and certain other imported auxiliary materials mainly in U.S. dollar while a significant portion of our other costs and expenses were incurred in RMB. We recognized net foreign exchange gain of RMB21.2 million and RMB8.3 million in 2015 and 2016 as a result of the appreciation of U.S. dollar against RMB, and net foreign exchange loss of RMB27.3 million in 2017 and RMB22.8 million in the three months ended March 31, 2018 as a result of the depreciation of U.S. dollar against RMB. Fluctuations in exchange rates, particularly between the U.S. dollar and RMB, could have an impact on our financial condition and results of operations, affect our operating profit. For more details, please refer to “Risk Factors – Risk Relating to Doing Business in China – Government control of currency conversion and fluctuations in the exchange rates of the Renminbi may materially and adversely affect our business, financial condition and results of operations and our ability to remit dividends.”

CRITICAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGMENT

We have identified certain accounting policies and estimates significant to the preparation of the consolidated financial information in accordance with HKFRS. The Accountant’s Report in Appendix I to this prospectus sets forth these significant accounting policies in Note 2, which are important for an understanding of our financial condition and results of operations. Some of our accounting policies involve subjective assumptions, estimates and judgments related to assets, liabilities, income, expenses and other accounting items, which are discussed in Note 4 of the Accountant’s Report in Appendix I to this prospectus. Our estimates are based on historical experience and other assumptions that management believes to be reasonable under the circumstances. Results may differ under different assumptions and conditions. We believe the following accounting policies, estimates and judgments most critical to the preparation of our financial information.

Revenue recognition

For the year ended December 31, 2015, 2016 and 2017

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

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Sales of products

Revenue from the sales of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

For the three months ended March 31, 2018

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

Sales of products

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

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

Impact of adoption of HKFRS 9 and HKFRS 15 on the financial statements

We have assessed the effects of adoption of HKFRS 9 and HKFRS 15 on the financial statements and identified the following areas that have been affected:

- Reclassification of financial instruments from available-for-sale financial assets under HKAS 39 to financial assets at fair value through profit or loss under HKFRS 9.
- Reclassifications in relation to our unsatisfied performance obligations from deferred revenue under HKAS 18 to contract liabilities under HKFRS 15.

Except for the abovementioned reclassifications, the adoption of HKFRS 9 and HKFRS 15 have no significant impact on the financial position and performance of the Group during the Track Record Period.

FINANCIAL INFORMATION

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

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

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

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

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

FINANCIAL INFORMATION

Intangible assets

Goodwill

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

Goodwill is allocated to cash-generating units (“CGUs”) for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Please refer to the section headed “II. Notes to the Historical Financial Information – 19. Intangible Assets – Impairment test for goodwill” in Appendix I to this prospectus for details of the key parameters used in impairment testing.

As of March 31, 2018, the recoverable amount of RMB2,897.2 million of CGU exceeded its carrying value of RMB2,085.0 million by RMB812.2 million. A 5.21% decrease in estimated annual sales volume growth rate, a 2.82% decrease in estimated sales price growth rate, a 1.38% decrease in estimated gross margin, a 2.50% decrease in estimated long term growth rate or a 3.26% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculation, would remove the remaining headroom.

The directors of the Company confirmed that no reasonably possible change in key parameters would cause the carrying amount of the CGU to exceed its recoverable amount.

Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives of five to ten years based on the expected use in future operating plan.

Contractual customer relationships

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

Computer software

Acquired computer software is capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of three to five years.

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Financial assets

Classification

For the year ended December 31, 2015, 2016 and 2017

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

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

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

(b) Receivables

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

(c) Available-for-sale financial assets

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

For the three months ended March 31, 2018

The Group classifies its financial assets in the following measurement categories:

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

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

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

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

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

Recognition and measurement

For the year ended December 31, 2015, 2016 and 2017

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

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

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

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

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

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For the three months ended March 31, 2018

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

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

Debt instruments

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.
- **Fair value through other comprehensive income ("FVOCI"):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses) – net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses and impairment expenses are presented in other gains/(losses) – net.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within other losses/gains, net in the period in which it arises.

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Equity instruments

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

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

Offsetting financial instruments

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

Impairment of financial assets

For the year ended December 31, 2015, 2016 and 2017

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

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

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For the three months ended March 31, 2018

The Group has types of financial assets subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of goods or provision of services; and
- other receivables.

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

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

Critical accounting estimates and judgments

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

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

(a) Useful lives of property, plant and equipment

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

(b) Income taxes and deferred tax assets/liabilities

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

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

(c) Provision for impairment of trade receivables

For trade receivables (excluding non-financial assets), the Group applies the simplified approach to providing for expected credit losses as prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables (excluding non-financial assets). No further provision has been recognized in retained earnings as at 1 January 2018 for those trade receivables (excluding non-financial assets) whose credit risk has been assessed as low, and the adoption of the new impairment methodology as described in Note 3.1(b) of Appendix I only results in an insignificant incremental amount of provision to be made.

(d) Net realizable value of inventories

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

(e) Warranty claims provision

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

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

FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth selected consolidated statements of profit or loss items for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenue	3,521,879	3,821,728	4,840,396	1,275,094	1,355,679
Cost of sales	(2,823,665)	(2,993,929)	(4,071,799)	(1,123,676)	(1,093,696)
Gross profit	698,214	827,799	768,597	151,418	261,983
Selling and distribution expenses	(265,863)	(295,772)	(320,952)	(85,071)	(71,007)
Administrative expenses	(71,880)	(72,762)	(82,085)	(18,421)	(27,840)
Research and development costs	(64,357)	(75,617)	(85,246)	(18,114)	(22,254)
Other income	18,150	19,194	21,458	4,622	5,582
Other gains/(losses) – net	35,609	12,152	(25,440)	(3,330)	(21,996)
Operating profit	349,873	414,994	276,332	31,104	124,468
Financial income	3,168	863	3,931	603	1,138
Financial expenses	(52,325)	(14,643)	(13,518)	(3,280)	(246)
Finance (costs)/income – net	(49,157)	(13,780)	(9,587)	(2,677)	892
Losses from fair value change of convertible redeemable preferred shares	(4,591)	(55,032)	(56,727)	(3,009)	–
Profit before income tax	296,125	346,182	210,018	25,418	125,360
Income tax expense	(132,981)	(54,976)	(36,446)	(6,120)	(17,001)
Profit for the year/period	<u>163,144</u>	<u>291,206</u>	<u>173,572</u>	<u>19,298</u>	<u>108,359</u>

FINANCIAL INFORMATION

DESCRIPTION OF KEY CONSOLIDATED STATEMENT OF PROFIT OR LOSS LINE ITEMS

Revenue

Sales by product type

During the Track Record Period, we derived substantially all our revenue from the sale of All Steel Radial Tires, Semi-Steel Radial tires and Bias Tires to our customers, which included distributors, vehicle manufacturers and Private Label customers. The following table sets forth our revenue by product, in absolute amount and as a percentage of total revenue, for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
All Steel Radial										
Tires	2,647,683	75.2	2,930,728	76.7	3,692,706	76.3	987,604	77.5	1,064,511	78.5
Semi-Steel										
Radial Tires	654,419	18.6	674,707	17.7	940,145	19.4	218,079	17.1	259,397	19.1
Bias Tires	219,777	6.2	216,293	5.6	207,545	4.3	69,411	5.4	31,771	2.4
Total	3,521,879	100.0	3,821,728	100.0	4,840,396	100.0	1,275,094	100.0	1,355,679	100.0

During the Track Record Period, our revenue increased by 8.5%, 26.7% and 6.3% in 2016, 2017 and three months ended March 31, 2018 compared with the previous periods, respectively, which was primarily attributable to increases in our sales of All Steel Radial Tires, and to a lesser extent, the Semi-Steel Radial Tires. Sales revenue of All Steel Radial Tires accounted for 75.2%, 76.7%, 76.3% and 78.5% of our total revenue in 2015, 2016, 2017 and three months ended March 31, 2018, respectively. Sales revenue of Semi-Steel Radial Tires accounted for 18.6%, 17.7%, 19.4% and 19.1% of our total revenue in 2015, 2016, 2017 and three months ended March 31, 2018, respectively. Sales revenue of Bias Tires accounted for a smaller portion of our total sales revenue in 2016, 2017 and three months ended March 31, 2018 compared with the previous periods.

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Sales by channel

The table below sets forth our revenue by sales channels for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)									
Distributors										
<i>Domestic</i>	1,027,394	29.2	1,393,106	36.5	1,774,498	36.7	561,195	44.0	485,987	35.9
<i>International</i>	789,603	22.4	799,854	20.9	1,341,025	27.7	287,601	22.5	324,507	23.9
	1,816,997	51.6	2,192,960	57.4	3,115,523	64.4	848,796	66.5	810,494	59.8
Direct sales to										
Vehicle										
Manufacturers	757,101	21.5	677,581	17.7	975,037	20.1	211,398	16.6	337,230	24.9
Private Label										
Customers	947,781	26.9	951,187	24.9	749,836	15.5	214,900	16.9	207,955	15.3
	<u>3,521,879</u>	<u>100.0</u>	<u>3,821,728</u>	<u>100.0</u>	<u>4,840,396</u>	<u>100.0</u>	<u>1,275,094</u>	<u>100.0</u>	<u>1,355,679</u>	<u>100.0</u>

The three months ended March 31, 2018 as compared with the three months ended March 31, 2017

Our sales increased by 6.3% in the three months ended March 31, 2018 as compared with the three months ended March 31, 2017. The increase was mainly attributable to a 59.5% increase in direct sales to vehicle manufacturers from RMB211.4 million in the three months ended March 31, 2017 to RMB337.2 million in the three months ended March 31, 2018, which was partially offset by a 4.5% decrease in sales through distributors from RMB848.8 million in the three months ended March 31, 2017 to RMB810.5 million in the three months ended March 31, 2018.

Direct sales to vehicle manufacturers increased in the three months ended March 31, 2018 mainly as a result of increase in demand from our existing customers, which continued the trend of increase in 2017 as compared to 2016, and was attributable in part to the consistent high quality of our products and our well-rounded after-sales services.

Sales through distributors decreased in the three months ended March 31, 2018 mainly due to the decrease in domestic sales through distributors. Domestic sales through distributors were higher in the three months ended March 31, 2017 mainly due to the increase in product orders by domestic distributors to build up stock in anticipation of a price increase in 2017, caused by the increases in raw material prices. International sales through distributors increased by 12.8% from RMB287.6 million in the three months ended March 31, 2017 to RMB324.5 million in the three months ended March 31, 2018, as a result of the expansion of our overseas distribution network.

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Sales to Private Label customers decreased by 3.2% from RMB214.9 million in the three months ended March 31, 2017 to RMB208.0 million in the three months ended March 31, 2018, primarily due to the decrease in sales of Semi-Steel Radial Tires to Cooper pursuant to our contractual arrangement.

The year ended December 31, 2017 as compared with the year ended December 31, 2016

Our sales revenue increased by 26.7% from RMB3,821.7 million in 2016 to RMB4,840.4 million in 2017. Such increase was primarily attributable to:

Expansion of our international distribution network. In 2017, we continued our efforts to expand our overseas distribution network to increase our market share and product awareness in the international markets. Our number of international distributors increased from 98 as of December 31, 2016 to 156 as of December 31, 2017. As a result, our revenue generated from international distributors increased by 67.7% from 2016 to 2017, through increases in sales of both All Steel Radial Tires and Semi-Steel Radial Tires.

- *Sales of Semi-Steel Radial Tires:* Sales of Semi-Steel Radial Tires through international distributors increased by more than double in 2017, which increased from RMB210.2 million in 2016 to RMB441.1 million 2017. Such increase was mainly due to the increase in sales in European countries, which was in part attributable to our newly established subsidiary in Europe as an effort to further enhance our sales and marketing. We also achieved increases in sales in Americas and Africa, partly due to the increase in the number of distributors.
- *Sales of All Steel Radial Tires:* Sales of All Steel Radial Tires through international distributors increased by 74.1% from RMB423.4 million in 2016 to RMB736.9 million in 2017, primarily due to increases in sales in Americas and Africa, which was in turn a result of our effort to expand our distribution network and the improvement of performance of existing distributors in such regions. For example, in 2017, we newly engaged one of the top distributors in Americas and an existing distributor in Africa became one of our top-five distributors.

Optimization of our domestic distribution network. We continued to optimize our distribution network in the PRC in 2017 by engaging capable new distributors and terminating underperforming existing distributors. In 2017, we selectively terminated 72 distributors mainly due to under-performance and engaged 79 new distributors. As a result, our revenue generated from domestic distributors increased by 27.4% from 2016 to 2017, through increases in sales of both All Steel Radial Tires and Semi-Steel Radial Tires.

- *Sales of Semi-Steel Radial Tires:* Sales of Semi-Steel Radial Tires through domestic distributors increased by 34.7% from RMB120.6 million in 2016 to RMB162.5 million in 2017, and the increase was also attributable to our continued efforts to (i) expand our sales network coverage for Semi-Steel Radial Tires in the PRC, for more details, please refer to the section headed “– Our Strategies – Strengthen our market

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position in the All Steel Radial Tire market and continue to expand our Semi-Steel Radial Tire business” and (ii) increase product offering, which increased from 879 models at the end of 2016 to 1,384 models at the end of 2017.

- *Sales of All Steel Radial Tires:* Sales of All Steel Radial Tires to domestic distributors increased by 26.9% from RMB1,254.0 million in 2016 to RMB1,591.9 million 2017, and the increase was also attributable to our efforts to (i) encourage distributor cooperation and promote package deals to increase sales, (ii) actively procure new customers through sales and marketing efforts such as hosting education activities for distributors and end users and (iii) improve our after-sales services to increase customer loyalty. For more details, please refer to “Business – Sales and Customers” and “Business – Distributors – In the PRC”.

Growth in direct sales to vehicle manufacturers. Revenue generated from direct sales to vehicle manufacturers increased by 43.9% from RMB677.6 million in 2016 to RMB975.0 million in 2017, mainly attributable to increases in direct sales of All Steel Radial Tires, which was in turn mainly attributable to increase in sales to existing top customers. For example, we were able to achieve significant sales growth to Sinotruk Group and SAIC Hongyan in 2017, attributable in part to the consistent high quality of our products and our well-rounded after-sales services.

In particular, we were able to achieve an increase in revenue in 2017 as compared to 2016 in spite of certain adverse developments in the global tire markets, such as the continued enforcement of anti-dumping and anti-subsidy regulations by foreign jurisdiction including the United States, and the general slowdown of the PRC and global economies. We believe we were able to overcome such adverse development to increase our sales revenue due to a combination of factors, including but not limited to:

Balanced regional growth: We are not overly reliant on either the domestic market or the overseas markets, as our sale revenue generated from the domestic market and overseas markets accounted for 58.8% and 41.2% of our total revenue in 2017, respectively. For further details, please refer to the subsection headed “– Sales by region”.

Diversified distribution network: We derive the majority of our revenue from our distributors but we are not overly reliant on our top distributors, as sales revenue generated from our top ten distributors accounted for only 15.2% of our total revenue in 2017. For further details, please refer to the section headed “Business – Sales and Customers”.

Wide range and increasing product offerings: We offer a variety of products that address a wide range of customer needs. For further details, please refer to the section headed “Business – Our Products – Product Types”.

Sales to Private Label customers decreased by 21.2% from RMB951.2 million in 2016 to RMB749.8 million in 2017, primarily due to the decrease in sales to a Private Label customer whose main sales were made in Middle East and Africa.

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The year ended December 31, 2016 as compared with the year ended December 31, 2015

Our sales increased by 8.5% in 2016 as compared with 2015. The increase was mainly attributable to a 20.7% increase sales through distributors from RMB1,817.0 million in 2015 to RMB2,193.0 million in 2016, which was partially offset by a 10.5% decrease in direct sales to vehicle manufacturers from RMB757.1 million in 2015 to RMB677.6 million in 2016. In 2016, we prioritized sales through distributors over direct sales to vehicle manufacturers as a strategic response to the fluctuation of raw material cost, as generally vehicle manufacturers have strong collective bargaining power against their suppliers like us and it is thus more difficult to timely pass cost increase onto vehicle manufacturer customers.

Our sales to Private Label customers remained relatively stable at RMB947.8 million in 2015 and RMB951.2 million in 2016 due to the stable customer demand in the relevant periods.

Sales by Region

The following table sets forth our sales amount by regions for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Mainland China	1,909,155	54.2	2,167,015	56.7	2,846,566	58.8	812,813	63.7	831,780	61.4
Americas ⁽¹⁾	717,374	20.4	779,021	20.4	855,647	17.7	198,233	15.5	236,737	17.5
Asia (excluding Mainland China)	465,572	13.2	418,217	10.9	387,419	8.0	83,538	6.6	110,593	8.2
Africa	148,175	4.2	153,687	4.0	285,197	5.9	61,240	4.8	73,616	5.4
Middle East	161,731	4.6	222,706	5.8	266,955	5.5	76,275	6.0	49,049	3.6
Other countries ⁽²⁾	119,872	3.4	81,082	2.2	198,612	4.1	42,995	3.4	53,904	3.9
Total	3,521,879	100.0	3,821,728	100.0	4,840,396	100.0	1,275,094	100.0	1,355,679	100.0

Notes:

(1) included North American and South American countries.

(2) primarily included Oceanian and European countries.

During the Track Record Period, we generated the majority of our revenue from the domestic market. Domestic sales accounted for increasing portions of our total sales, representing 54.2%, 56.7%, 58.8% and 61.4% of the total sales amount in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Sales in the domestic market increased from RMB1,909.2 million in 2015 to RMB2,167.0 million in 2016 and to RMB2,846.6 million in 2017, representing a CAGR of 22.1% and increased by 2.3% from RMB812.8 million in the three months ended March 31, 2017 to RMB831.8 million in the three months ended March 31, 2018.

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We have devoted significant efforts in developing our customer reach in overseas market. Our revenue generated from the Americas increased from RMB717.4 million in 2015 to RMB779.0 million in 2016 and then to RMB855.6 million in 2017, which were mainly attributable to the development of our operations in Latin American countries. Revenue generated from Americas increased from RMB198.2 million in the three months ended March 31, 2017 to RMB236.7 million in the three months ended March 31, 2018, primarily due to the increase in sales in the United States, which was in turn mainly attributable to (i) the sales of a new model of Semi-Steel Radial Tires and (ii) the increase in sales of All Steel Radial Tires to Cooper and (iii) sales of our products under our own brands in American countries. Our revenue generated from other countries in Asia decreased from RMB465.6 million in 2015 to RMB418.2 million in 2016, mainly due to the decrease in unit sales price, and decreased further to RMB387.4 million in 2017 mainly due to the constrain on our production capacity which resulted in the decrease in the product volume we supplied to such countries. Our revenue generated from other countries in Asia increased from RMB83.5 million in the three months ended March 31, 2017 to RMB110.6 million in the three months ended March 31, 2018, primarily due to the increase in sales volume of both All Steel Radial Tires and Semi-Steel Radial Tires in such countries, which in turn was attributable to our decision to increase supply to the Asian markets in the three months ended March 31, 2018 due to the increase in demand during this period. We established a subsidiary in Europe in May 2016, which contributed to the significant increases in sales to other countries from RMB81.1 million in 2016 to RMB198.6 million in 2017 and the increase from RMB43.0 million in the three months ended March 31, 2017 to RMB53.9 million in the three months ended March 31, 2018. How we allocate our sales among regions is in part affected by our production capacity and market demand of different regions, which could change dynamically from year to year.

Sales volume

The following table sets forth our sales volume by product for the periods indicated:

	Year ended December 31,			Three months ended	
	March 31,				
	2015	2016	2017	2017	2018
	<i>unit</i>	<i>unit</i>	<i>unit</i>	<i>unit</i>	<i>unit</i>
All Steel Radial Tires	3,343,495	3,966,980	4,454,999	1,229,425	1,248,800
Semi-Steel Radial Tires	3,803,018	4,114,624	5,451,774	1,296,518	1,455,212
Bias Tires	768,565	819,403	711,448	255,950	105,341
Total	<u>7,915,078</u>	<u>8,901,007</u>	<u>10,618,221</u>	<u>2,781,893</u>	<u>2,809,353</u>

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The increase in sales amount for our All Steel Radial Tires and Semi-Steel Radial Tires sales were in part a result of the growth in sales volume. Sales volume of All Steel Radial Tires increased by 18.6% from 2015 to 2016, by 12.3% from 2016 to 2017 and by 1.6% from the three months ended March 31, 2017 to the three months ended March 31, 2018, respectively. Sales volume of Semi-Steel Radial Tires increased by 8.2% from 2015 to 2016, by 32.5% from 2016 to 2017 and by 12.2% from the three months ended March 31, 2017 to the three months ended March 31, 2018, respectively. Our sales volume in a given period is mainly affected by market demand and our production capacity. In particular, our production capacity for All Steel Radial Tires, which was at 76.0%, 91.9%, 96.0% and 95.8% in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, exerted constraints on the increases in sales volume of All Steel Radial Tires during the Track Record Period, in particularly the three months ended March 31, 2018.

We believe the increases in our revenue were also attributable to our efforts to timely develop and introduce new products in response to market demands. In 2015, 2016 and 2017, we developed 153, 169 and 216 new products, respectively. Although it takes a certain period of time before newly-developed products can be produced on a commercial scale, we believe the continuous expansion of our product offerings each year contributes to the increase of our sales revenue.

Average sales price

The following table sets forth the average sales prices by product, calculated by dividing sales amount by sale volume of the specific product type, for the periods indicated:

	Year ended December 31,			Three months ended	
	March 31,				
	2015	2016	2017	2017	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
All Steel Radial Tires	792	739	829	803	852
Semi-Steel Radial					
Tires	172	164	172	168	178
Bias Tires	286	264	292	271	302

The average sales prices of our products are affected by a number of factors, including but not limited to, price of the key raw materials, in particular prices of natural rubber and synthetic rubber, and prevailing price of comparable products in the domestic and global markets. For example, our average sales prices for all types of tires were lower in 2016 as compared to both 2015 and 2017, which was in part attributable to the lower raw material prices in 2016. The average sales price for All Steel Radial Tires was higher in the three months ended March 31, 2018 as compared with the three months ended March 31, 2017, mainly as a result of both the increase in demand which gave us more flexible pricing power and the increase in direct sales to vehicle manufacturers. The average sales price for Semi-Steel Radial Tires was also higher in the three months ended March 31, 2018, mainly due to the increase in sales price as a result of changes in tires specifications, including increases in tire weights.

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Cost of Sales

The following table sets forth the main components of our cost of sales for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Raw Material	1,926,376	68.2	2,230,353	74.5	3,193,239	78.4	893,028	79.5	744,386	68.1
Change in inventories of finished goods and work in progress	114,351	4.0	(73,579)	(2.5)	(20,178)	(0.5)	9,245	0.8	117,198	10.7
Utility costs	185,434	6.6	194,653	6.5	221,896	5.4	56,342	5.0	56,654	5.2
Depreciation	171,577	6.1	169,884	5.7	166,261	4.1	41,934	3.7	42,081	3.8
Labor	206,984	7.3	238,200	8.0	269,410	6.6	63,694	5.7	71,998	6.6
Maintenance	33,903	1.2	32,271	1.1	28,728	0.7	5,278	0.5	5,628	0.5
Others ⁽¹⁾	185,040	6.6	202,147	6.7	212,443	5.3	54,155	4.8	55,751	5.1
Total	2,823,665	100.0	2,993,929	100.0	4,071,799	100.0	1,123,676	100.0	1,093,696	100.0

Note:

- (1) Other cost of sales included uncreditable tax expenses related to export sales and cost of axillary production materials.

Cost of raw materials

Cost of raw materials was the largest component of our cost of sales, representing 68.2%, 74.5%, 78.4% and 68.1% of the total cost of sales in 2015, 2016, 2017 and three months ended March 31, 2018, respectively. The principal raw materials used in our production include rubber, carbon black and steel wire cord. The following table sets forth the breakdown of our material cost and the percentages to total cost of sales for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Rubber	999,865	35.4	1,180,443	39.4	1,757,731	43.2	529,937	47.2	339,204	31.0
Carbon black	196,972	7.0	220,269	7.4	374,913	9.2	80,507	7.2	117,076	10.7
Steel wire cord	257,096	9.1	286,765	9.6	358,013	8.8	93,224	8.3	95,551	8.7
Others	472,443	16.7	542,876	18.1	702,582	17.2	189,360	16.8	192,555	17.7
Total	1,926,376	68.2	2,230,353	74.5	3,193,239	78.4	893,028	79.5	744,386	68.1

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The cost of rubber, which included both natural rubber and synthetic rubber, constituted the majority of our raw material costs, representing 35.4%, 39.4%, 43.2% and 31.0% of our total cost of sales in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. During the Track Record Period, the increases in our cost of raw material costs were mainly affected by the volume of the raw materials we consumed and the unit prices for such raw materials. The volume of the raw materials consumed was affected by the level of our production activities, which increased each year during the Track Record Period. The market prices of rubber and other raw materials used in our production fluctuated due to factors including worldwide supply and demand, the level of global economic activity, regional political developments, and climate conditions. According to Frost & Sullivan, due to changes in national policies in the automotive industry and natural disasters in rubber production areas, the average prices for natural and synthetic rubber experienced a sudden increase at the end of 2016 and then started to fall at the end of March 2017, please see “Industry Overview – Price Trend of Raw Materials” further details of the price movements of our raw materials.

Cost of sales other than raw material cost

Our cost of sales also included other cost associated with our production activities, such as labor costs and other cost. Increases in other cost were generally in line with the increases in our production activities. Our labor cost increased mainly as a result of both an increase in headcount and the average salary of our employees.

Cost of sales by product type

The following table sets forth our cost of sales by product type for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
All Steel Radial										
Tires	2,114,341	74.9	2,277,706	76.1	3,074,960	75.5	864,858	77.0	842,308	77.0
Semi-Steel										
Radial Tires	541,288	19.2	555,115	18.5	826,186	20.3	201,506	17.9	224,055	20.5
Bias Tires	168,036	5.9	161,108	5.4	170,653	4.2	57,312	5.1	27,333	2.5
Total	2,823,665	100.0	2,993,929	100.0	4,071,799	100.0	1,123,676	100.0	1,093,696	100.0

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Gross Profit and Gross Profit Margin

The following table sets forth our gross profits and gross profit margins, for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
	(Unaudited)									
Revenue	3,521,879	100.0	3,821,728	100.0	4,840,396	100.0	1,275,094	100.0	1,355,679	100.0
Cost of sales	(2,823,665)	(80.2)	(2,993,929)	(78.3)	(4,071,799)	(84.1)	(1,123,676)	(88.1)	(1,093,696)	(80.7)
Gross profit/										
Gross profit margin	698,214	19.8	827,799	21.7	768,597	15.9	151,418	11.9	261,983	19.3

During the Track Record Period, our gross profit increased by 18.6% from RMB698.2 million in 2015 to RMB827.8 million in 2016, but decreased by 7.2% to RMB768.6 million in 2017. Similarly, our gross profit margin increased from 19.8% in 2015 to 21.7% in 2016 but decreased to 15.9% in 2017. Our revenue increased by 6.3% from RMB1,275.1 million in the three months ended March 31, 2017 to RMB1,355.7 million in the three months ended March 31, 2018, and our gross profit margin increased from 11.9% in the three months ended March 31, 2017 to 19.3% in the three months ended March 31, 2018. The changes in our gross profit and gross profit margin during the Track Record Period were mainly affected by the cost of sales, which in turn was largely affected by cost of raw materials we use. In particular, natural rubber price increased from RMB10,600 in August 2016 to RMB18,450 in March 2017, before falling to RMB13,325 in August 2017, according to Frost & Sullivan. Synthetic rubber price experienced a similar trend. Average natural rubber price decreased by approximately 35.3% from RMB18,650 per ton in the three months ended March 31, 2017 to RMB12,075 per ton in the three months ended March 31, 2018. The increase in rubber price had a delayed effect on our cost of sales, as rubber purchased in late 2016 was mainly delivered and used in production in the first quarter of 2017. Moreover, rubber price fell in August 2017, after which we could not effectively pass on the increase in cost of sales incurred earlier in the year to customers by increasing sales price of our products. Gross profit margin in 2017 was also negatively impacted to a lesser degree by the increase in price for carbon black. Decrease in rubber prices was also a main reason of the increase in gross profit and gross profit margin from the three months ended March 31, 2017 to the three months ended March 31, 2018. Please refer to “Industry Overview – Competitive Landscape of China Domestic Brand Automotive Tire Market – Price Trend of Major Raw Materials”, “– Key Factors Affecting Our Results of Operations – Fluctuation of Raw Material Cost” for further details.

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The following table sets forth our gross profit and gross profit margins by product type for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
All Steel Radial										
Tires	533,342	20.1	653,022	22.3	617,746	16.7	122,746	12.4	222,203	20.9
Semi-Steel										
Radial Tires	113,131	17.3	119,592	17.7	113,959	12.1	16,573	7.6	35,342	13.6
Bias Tires	51,741	23.5	55,185	25.5	36,892	17.8	12,099	17.4	4,438	14.0
Total	698,214	19.8	827,799	21.7	768,597	15.9	151,418	11.9	261,983	19.3

Changes in gross profit margins for each product type during the Track Record Period were largely in line with changes in overall gross profit margins. Gross profit margin decreased from 25.5% in 2016 to 17.8% in 2017 for Bias Tires because Bias Tires use a higher portion of rubber compared with All Steel Radial Tires and Semi-steel Radial Tires, making the negative impact of rubber price fluctuation more prominent.

Selling and Distribution Expenses

The following table sets forth the components of our selling and distribution expenses for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Transportation										
expense	86,849	32.7	106,282	35.9	120,185	37.4	32,824	38.6	27,996	39.4
Warranty										
claims	53,673	20.2	65,647	22.2	75,832	23.6	20,241	23.8	13,694	19.3
Travel expenses	28,265	10.6	29,465	10.0	27,091	8.4	7,695	9.0	5,679	8.0
Storage										
expenses	20,273	7.6	17,911	6.1	19,182	6.0	5,074	6.0	4,904	6.9
Salaries and										
benefits costs	17,509	6.6	17,664	6.0	21,787	6.8	5,260	6.2	5,131	7.2
Export related										
expenses	18,102	6.8	18,533	6.3	25,461	7.9	5,461	6.4	6,730	9.5

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	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Commission fees	4,055	1.5	4,713	1.6	5,073	1.6	1,806	2.1	613	0.9
Advertising and conference expenses	9,132	3.4	9,362	3.2	929	0.3	437	0.5	724	1.0
Packaging expenses	8,382	3.2	8,269	2.8	10,193	3.2	2,829	3.3	2,225	3.1
Others ⁽¹⁾	19,623	7.4	17,926	5.9	15,219	4.8	3,444	4.1	3,311	4.7
Total	265,863	100.0	295,772	100.0	320,952	100.0	85,071	100.0	71,007	100.0

Note:

(1) Primarily included depreciation expense and other miscellaneous expenses related to sales.

Our selling and distribution expenses amounted to 7.5%, 7.7%, 6.6% and 5.2% of our total revenue in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Our selling and distribution costs consisted primarily of:

- *Transportation expenses*, which were related to transportation of our products, were affected by the sales volume and the service price we paid;
- *Warranty claims*, which were estimated warranty payments to be made on our products pursuant to warranty claims, and were calculated based on the average claim amount and the historical warranty claim rate of the previous 12 months on a rolling basis;
- *Travel expenses*, which were expenses incurred in sales and marketing related activities;
- *Storage expenses*, which were expenses related to the storage of our products;
- *Salaries and benefit cost*, which were salaries, incentives and benefit paid to our sales and marketing personnel;
- *Export related expenses*, which were expenses related to tariff declaration process; and
- *Commission fees*, which were mainly charges for service that we paid to third party sales service providers.

FINANCIAL INFORMATION

Research and Development Costs

The following table sets forth the components of our research and development costs for the period indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Salaries and benefits costs	33,899	52.7	35,829	47.4	41,275	48.4	8,912	49.2	11,029	49.6
Depreciation of testing equipment	12,902	20.0	13,075	17.3	12,351	14.5	3,218	17.8	3,060	13.8
Cost of testing material	3,906	6.1	3,934	5.2	4,934	5.8	1,066	5.9	1,129	5.1
Service and management fees	5,820	9.0	10,871	14.4	14,003	16.4	1,711	9.4	3,556	16.0
Others	7,830	12.2	11,908	15.7	12,683	14.9	3,207	17.7	3,480	15.5
Total	64,357	100.0	75,617	100.0	85,246	100.0	18,114	100.0	22,254	100.0

Our research and development costs amounted to 1.8%, 2.0%, 1.8% and 1.6% of our revenue in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Research and development costs consisted primarily of salaries and benefit costs of our research and development staff. Service and management fees mainly included expenses paid to service providers for certain specialized research and development and product tests.

FINANCIAL INFORMATION

Administrative Expenses

The following table sets forth the components of our administrative expenses for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Salaries and benefits costs	21,184	29.5	22,873	31.4	23,676	28.8	5,237	28.4	6,983	25.1
Property expenses	5,428	7.6	5,383	7.4	5,332	6.5	1,333	7.2	1,261	4.5
Depreciation	2,058	2.9	1,916	2.6	1,810	2.2	473	2.6	416	1.5
Amortization	17,132	23.8	15,641	21.5	15,803	19.3	3,709	20.1	3,606	13.0
Insurance expenses	5,265	7.3	5,393	7.4	6,244	7.6	1,502	8.2	1,266	4.5
Rental expenses	3,840	5.3	3,961	5.4	2,886	3.5	974	5.3	476	1.7
Professional fees	2,589	3.6	2,967	4.1	4,522	5.5	1,628	8.8	1,881	6.8
Office expenses	2,120	2.9	2,649	3.6	3,295	4.0	783	4.3	609	2.2
Others ⁽¹⁾	12,264	17.1	11,979	16.6	13,669	16.7	2,782	15.1	4,394	15.7
Listing expense	–	–	–	–	4,848	5.9	–	–	6,948	25.0
Total	71,880	100.0	72,762	100.0	82,085	100.0	18,421	100.0	27,840	100.0

Note:

(1) primarily included other taxes and other miscellaneous expenses.

Administrative expenses amounted to 2.0%, 1.9%, 1.7% and 2.1% of our total revenue in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. Our administrative expenses consisted primarily of:

- salaries and benefits for our administrative personnel; and
- amortization, which was mainly related to amortization for intangible assets.

FINANCIAL INFORMATION

Other Income

The following table sets forth the components of our other income for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Sales of raw materials and scraps	12,500	11,881	17,884	3,579	4,936
Government grants	5,650	7,313	3,574	1,043	646
Total	18,150	19,194	21,458	4,622	5,582

Our other income consisted primarily of sales of raw materials and scraps and government grants. In 2015, 2016, 2017 and the three months ended March 31, 2018, our other income was RMB18.2 million, RMB19.2 million, RMB21.5 million and RMB5.6 million, respectively. Our government grants fluctuated during the Track Record Period because such grants were subject to the sole discretion of the relevant government authorities. Our government grants included financial subsidies and financial awards from various local governments in the PRC. Government grants were mainly granted to reimburse the costs of qualified projects as a form of governmental incentive, and were recognized on the statement of profit or loss on a straight-line basis over the expected useful lives of the qualified projects.

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Other Gains/(Losses) – Net

The following table sets forth the components of our net other gains/(losses) for the periods indicated.

	Year ended December 31,			Three months ended 31 March,	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Gains on disposal of available-for-sale financial assets	11,407	3,415	2,996	1,071	–
Gains/(losses) on disposal of financial assets at fair value through profit and loss	–	1,719	374	–	(2,654)
(Losses)/gains from fair value change of financial assets at fair value through profit or loss	–	–	–	(93)	2,310
Gains/(losses) on disposal of property, plant and equipment	1,468	(2,149)	(766)	51	(347)
Net other foreign exchange gains/(losses)	21,248	8,285	(27,326)	(4,904)	(22,777)
Others	1,486	882	(718)	545	1,472
Total	35,609	12,152	(25,440)	(3,330)	(21,996)

FINANCIAL INFORMATION

We recorded net other gains of RMB35.6 million and RMB12.2 million in 2015 and 2016, respectively, and we recorded net other loss of RMB25.4 million in 2017. We recorded net other loss of RMB3.3 million and RMB22.0 million in the three months ended March 31, 2017 and 2018, respectively. Our net other gains or losses primarily included:

- gains on disposal of available-for-sale financial assets, which mainly included wealth-management financial products, as a means to actively manage our cash on hand; and
- net other foreign exchange gains or losses, which were primarily attributable to the fluctuation of the exchange rate of U.S. dollar against the Renminbi.

Finance (costs)/income – Net

The following table sets forth the components of our finance income and finance costs for the periods indicated.

	Year ended December 31,			Three months ended	
	2015	2016	2017	31 March,	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Interest expenses					
on bank					
borrowings	(40,815)	(2,193)	(2,310)	–	(2,584)
Foreign exchange					
(losses)/gains					
on financing					
activities	(7,579)	323	1,896	–	2,338
Interest expenses					
on convertible					
redeemable					
preferred					
shares	(3,931)	(12,773)	(13,104)	(3,280)	–
	(52,325)	(14,643)	(13,518)	(3,280)	(246)
Interest income					
derived from					
bank deposit	3,168	863	3,931	603	1,138
Total	(49,157)	(13,780)	(9,587)	(2,677)	892

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In 2015, 2016 and 2017, we recorded net finance costs of RMB49.2 million, RMB13.8 million and RMB9.6 million, respectively. We recorded net finance cost of RMB2.7 million and net finance income of approximately RMB892,000 in the three months ended March 31, 2017 and 2018, respectively. During the Track Record Period, changes to our net finance costs was mainly attributable to the interest expenses on our convertible redeemable preferred shares, as well as interest expenses we incurred on bank borrowings and our foreign exchange (losses)/gains on financing activities. In turn, our interest expenses on bank borrowings are correlated the amount of bank borrowings during a relevant period, while our interest expenses on convertible redeemable preferred shares increased substantially commencing in 2016 because such preferred shares were issued in October 2015 and we began to incur such expenses since October 2015. For more details, please refer to “– Indebtedness”.

Losses from fair value change of convertible redeemable preferred shares

We recognized losses from fair value change of convertible redeemable preferred shares in the amount of RMB4.6 million, RMB55.0 million and RMB56.7 million in 2015, 2016 and 2017, respectively, which was primarily due to the increase in the value of our Group. On July 21, 2015, our Company, Chengshan Group and Sinotruk Capital entered into an subscription agreement pursuant to which the Company would issue to Sinotruk Capital 63,400,000 series A convertible redeemable preferred shares with par value of USD0.00005 per share, amounting to USD40,000,000. The subscription was completed on October 29, 2015. We monitor Series A preferred shares on the fair value basis, and specify all mixed contracts as financial liabilities at fair value through profit or loss, while the fair value changes are included in the consolidated statements of profit or loss. All Series A Preferred Shares were converted into 63,400,000 ordinary Shares on January 1, 2018, after which no such loss was recognized.

Income Tax Expense

Our income tax expenses included current income tax, offset by deferred income tax, which was primarily a result of timing differences arising between the tax bases of assets and liabilities and their carrying amount.

Our effective tax rates were 44.9%, 15.9%, 17.4% and 13.6% in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. The relatively high effective tax rate of 2015 was primarily due to RMB89.8 million of withholding tax we recognized on a dividend distribution in connection with the Reorganization.

Our PRC subsidiaries are subject to income tax in the PRC. According to the 2008 EIT Law and its implementation rules, all PRC incorporated companies are subject to the enterprise income tax at a single rate of 25%. Prinx (Shandong) Tire was certified by the PRC government authorities as a High and New Technology Enterprise, and therefore enjoyed preferential enterprise income tax rates of 15% since 2014. The 15% preferential enterprise income tax rate is subject to review and approval by relevant government authorities every three years. The competent government authority recently granted Prinx (Shandong) Tire the updated certificate as a High and New Technology Enterprise through the fiscal year of 2019.

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During the Track Record Period, our subsidiary in Hong Kong, Prinx Investment Limited, was subject to Hong Kong profit tax rate of 16.5%. Our subsidiary in Czech Republic was subject to income tax rates ranging from 21% to 22%.

In addition to applicable enterprise income tax rates, our effective enterprise income tax rates may also be affected by amounts relating to portions of income not subject to taxation and expenses, not deductible for tax purpose, unrecognized tax losses carried forward and utilization of tax losses for which no deferred income tax assets were recognized.

As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes with relevant tax authority.

Net Profit

As the result of above, we had net profit of RMB163.1 million, RMB291.2 million, RMB173.6 million and RMB108.4 million in 2015, 2016, 2017 and the three months ended March 31 2018, respectively.

Other Comprehensive (Loss)/Income

In addition, we had RMB70.7 million, RMB19.0 million and RMB804,000 loss in 2015, 2016 and the three months ended March 31, 2018 and RMB21.3 million income in 2017 due to currency translation differences. Such currency translation differences were primarily derived from certain entities of our Group whose functional currency is not RMB.

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Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Revenue

Revenue increased by 6.3% from RMB1,275.1 million in the three months ended March 31, 2017 to RMB1,355.7 million in the three months ended March 31, 2018. The increase was primarily a result of the growth in revenue generated from both All Steel Radial Tires and Semi-Steel Radial Tires, which was in turn attributable to increases both in sales volume and prices for both type of products.

All Steel Radial Tires

Revenue derived from our All Steel Radial Tires sales increased by 7.8% from RMB987.6 million in the three months ended March 31, 2017 to RMB1,064.5 million in the three months ended March 31, 2018. The growth in revenue was mainly attributable to an increase in the sales volume of approximately 19,000 units, and an increase in average sales price from RMB803 in the three months ended March 31, 2017 to RMB852 in the three months ended March 31, 2018.

FINANCIAL INFORMATION

Semi-Steel Radial Tires

Revenue we derived from our Semi-Steel Radial Tires sales increased by 18.9% from RMB218.1 million in the three months ended March 31, 2017 to RMB259.4 million in the three months ended March 31, 2018.

The growth in revenue was mainly attributable to an increase in the sales volume of approximately 158,700 units and an increase in average sales price from RMB168 in the three months ended March 31, 2017 to RMB178 in the three months ended March 31, 2018. In terms of sales channels, the increase in revenue was mainly attributable to growth in sales to overseas markets through distributors and sales to domestic vehicle manufacturers, partially offset by a decrease in sales to Cooper.

Bias Tires

Revenue we derived from our sales of Bias Tires decreased by 54.2% from RMB69.4 million in the three months ended March 31, 2017 to RMB31.8 million in the three months ended March 31, 2018. Such decrease was mainly a result of a reduction in the Bias Tires sales volume, which was mainly attributable to a general slowdown in the global Bias Tires market.

Cost of Sales

Cost of sales decreased by 2.7% from RMB1,123.7 million in the three months ended March 31, 2017 to RMB1,093.7 million in the three months ended March 31, 2018. The decrease was primarily due to the decrease in prices of rubber and the decrease in production activities during the Chinese new year holidays, partially offset by the increase in prices of carbon black.

All Steel Radial Tires

The cost we incurred for our All Steel Radial Tires business decreased by 2.6% from RMB864.9 million in the three months ended March 31, 2017 to RMB842.3 million in the three months ended March 31, 2018. The decrease was mainly attributable to the decrease in the prices of rubber.

Semi-Steel Radial Tires

The cost we incurred for our Semi-Steel Radial Tires business increased by 11.2% from RMB201.5 million in the three months ended March 31, 2017 to RMB224.1 million in the three months ended March 31, 2018. The increase was mainly attributable to an increase in the sales volume, which was partially offset by the decrease in the prices of rubber.

Bias Tires

The cost we incurred for our Bias Tires business decreased by 52.3% from RMB57.3 million in the three months ended March 31, 2017 to RMB27.3 million in the three months ended March 31, 2018. The decrease was mainly attributable to the decrease in sales volume.

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

Gross profit increased by 73.0% from RMB151.4 million in the three months ended March 31, 2017 to RMB262.0 million in the three months ended March 31, 2018. Gross profit margin increased from 11.9% in the three months ended March 31, 2017 to 19.3% in the three months ended March 31, 2018. The increases were mainly attributable to the decrease in rubber prices and the increase in the average sales prices, which was in turn attributable in part to the increase in our pricing power due to the increase in demand.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 16.5% from RMB85.1 million in the three months ended March 31, 2017 to RMB71.0 million in the three months ended March 31, 2018. The decrease was primarily attributable to the decreases in warranty claims and transportation expenses. The decrease in transportation expense was primarily due to the increase in the usage of our own storage facilities in the product delivery process. The decrease in warranty claim was primarily due to the decrease in sales to domestic distributors which had higher historical claim rate, the improvement of our product quality in the previous 12 months which reduced the historical warranty claim rate and the decrease in average claim amount as a result of decrease in production cost.

Research and Development Costs

Research and development costs increased by 22.9% from RMB18.1 million in the three months ended March 31, 2017 to RMB22.3 million in the three months ended March 31, 2018, primarily due to an increase in our salaries and benefits cost for research and development personnel, which was in turn mainly attributable to the increase of the number of research and development employees. Service fee also increased due to our increased investment in research and development.

Administrative Expenses

Administrative expenses increased by 51.1% from RMB18.4 million in the three months ended March 31, 2017 to RMB27.8 million in the three months ended March 31, 2018, primarily attributable to the increase in the listing expense associated with the preparation of the Offering.

Other Income

Other income increased by 20.8% from RMB4.6 million in the three months ended March 31, 2017 to RMB5.6 million in the three months ended March 31, 2018, primarily due to the increase in sales of raw materials and scraps which was in turn attributable to the increase of our production activities.

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Other Gains/(losses) – Net

Net other losses increased significantly from RMB3.3 million in the three months ended March 31, 2017 to RMB22.0 million in the three months ended March 31, 2018, primarily due to net other foreign exchange loss which was in turn attributable to the depreciation of exchange rate of U.S. dollar against RMB and the increase in the balance of net assets denominated in U.S. dollar.

Finance (Costs)/income – Net

We recorded net finance cost of RMB2.7 million in the three months ended March 31, 2017, primarily due to interest expenses on convertible redeemable preferred shares. We recorded net finance gain of RMB892,000 in the three months ended March 31, 2018, mainly attributable to interest income derived from bank deposit partially offset by interest expenses on bank borrowings.

Losses from fair value change of convertible redeemable preferred shares

We did not record any gain or loss from fair value change of convertible redeemable preferred shares in the three months ended March 31, 2018 following the conversion of all Series A Preferred Shares into ordinary Shares.

Income Tax Expense

Income tax expense increased from RMB6.1 million in the three months ended March 31, 2017 to RMB17.0 million in the three months ended March 31, 2018, primarily due to the increase of profit before income tax. Our effective tax rate decreased from 24.1% in the three months ended March 31, 2017 to 13.6% in the three months ended March 31, 2018, as we recognized withholding tax on dividend distribution in the three months ended March 31, 2017 but not in the three months ended March 31, 2018.

Profit for the Year

As a result of the foregoing, our profit increased significantly from RMB19.3 million in the three months ended March 31, 2017 to RMB108.4 million in the three months ended March 31, 2018, and our net profit margin increased from 1.5% in the three months ended March 31, 2017 to 8.0% in the three months ended March 31, 2018.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Revenue

Revenue increased by 26.7% from RMB3,821.7 million in 2016 to RMB4,840.4 million in 2017. The increase was primarily a result of the growth in revenue generated from both All Steel Radial Tires and Semi-Steel Radial Tires, which was in turn attributable to increases both in sales volume and prices for both type of products.

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All Steel Radial Tires

Revenue derived from our All Steel Radial Tires sales increased by 26.0% from RMB2,930.7 million in 2016 to RMB3,692.7 million in 2017. The growth in revenue was mainly attributable to an increase in the sales volume from approximately 4.0 million units to approximately 4.5 million units, and an increase in average sales price from RMB739 in 2016 to RMB829 in 2017. In terms of sales channels, the increase in revenue was mainly attributable to growth in sales to domestic distributors and vehicle manufacturers.

Semi-Steel Radial Tires

Revenue we derived from our Semi-Steel Radial Tires sales increased by 39.3% from RMB674.7 million in 2016 to RMB940.1 million in 2017. The growth in revenue was mainly attributable to an increase in the sales volume of our Semi-Steel Radial Tires from approximately 4.1 million units to approximately 5.5 million units and an increase in average sales price from RMB164 in 2016 to RMB172 in 2017. In terms of sales channels, the increase in revenue was mainly attributable to growth in sales to overseas markets through distributors.

Bias Tires

Revenue we derived from our sales of Bias Tires decreased by 4.0% from RMB216.3 million in 2016 to RMB207.5 million in 2017. Such decrease was mainly a result of a reduction in the Bias Tires sales volume, which was mainly attributable to a general slowdown in the global Bias Tires market.

Cost of Sales

Cost of sales increased by 36.0% from RMB2,993.9 million in 2016 to RMB4,071.8 million in 2017. The increase was primarily due to the increase in raw material prices, in particular the increase in rubber price in the first half of 2017.

All Steel Radial Tires

The cost we incurred for our All Steel Radial Tires business increased by 35.0% from RMB2,277.7 million in 2016 to RMB3,075.0 million in 2017. The growth in cost of sales was mainly attributable to an increase in the volume of raw materials consumed, mainly natural rubber and synthetic rubber and the increases in rubber prices.

Semi-Steel Radial Tires

The cost we incurred for our Semi-Steel Radial Tires business increased by 48.8% from RMB555.1 million in 2016 to RMB826.2 million in 2017. The growth in cost of sales was mainly attributable to an increase in the volume of raw materials consumed, mainly natural rubber and synthetic rubber and the increases in rubber prices.

Bias Tires

The cost we incurred for our Bias Tires business increased by 5.9% from RMB161.1 million in 2016 to RMB170.7 million in 2017. The increase in cost of sales was mainly attributable to the increases in rubber prices.

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Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by 7.2% from RMB827.8 million in 2016 to RMB768.6 million in 2017. Gross profit margin decreased from 21.7% in 2016 to 15.9% in 2017, primarily due to a sudden fluctuation of the prices of natural and synthetic rubber, which increased at the end of 2016 and then started to fall in the end of March 2017 and also due to the increase in the price of carbon black to a lesser degree.

Selling and Distribution Expenses

Selling and distribution expenses increased by 8.5% from RMB295.8 million in 2016 to RMB321.0 million in 2017. The increase was primarily attributable to the increases in transportation expenses and warranty claims, both of which were in line with the increase in the sales volume of our All Steel Radial Tires and Semi-Steel Radial tires.

Selling and distribution expenses accounted for 6.6% of our revenue in 2017, decreasing from 7.7% in 2016. The decrease was primarily due to our efforts to proactively reduce expense and increase operational efficiency in anticipation to the negative impact on our results of operations by the increase of raw material prices, such as the decrease in our advertising and conference expense from RMB9.4 million to RMB0.9 million. The decrease in percentage of selling and distribution expenses to revenue in 2017 was also a result of our continuous efforts to improve our product quality to reduce warranty claim rate, which in turn resulted in decrease in the percentage of warranty claim expenses to total revenue in 2017 as compared to 2016.

Research and Development Costs

Research and development costs increased by 12.7% from RMB75.6 million in 2016 to RMB85.2 million in 2017, primarily due to an increase in our salaries and benefits cost for research and development personnel, which was in turn mainly attributable to the increase of the number of research and development employees. Service fee also increased due to our increased investment in research and development.

Administrative Expenses

Administrative expenses increased by 12.8% from RMB72.8 million in 2016 to RMB82.1 million in 2017. The increase was in line with the increase in our production activities.

Other Income

Other income increased by 11.8% from RMB19.2 million in 2016 to RMB21.5 million in 2017, primarily due to the increase in sales of raw materials and scraps which was in turn attributable to the increase of our production activities.

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Other Gains/(losses) – Net

We recognized net other losses of RMB25.4 million in 2017 as compared with a net other gains of RMB12.2 million in 2016. The loss was primarily due to the depreciation of the exchange rate of U.S. dollar against RMB.

Finance Costs – Net

Net finance costs decreased by 30.4% from RMB13.8 million in 2016 to RMB9.6 million in 2017. The decrease was primarily due to the increase in the interest income derived from our bank deposits. Our interest expenses on convertible redeemable preferred shares was RMB12.8 million and RMB13.1 million, respectively.

Losses from fair value change of convertible redeemable preferred shares

We recognized losses from fair value change of convertible redeemable preferred shares in the amount of RMB55.0 million and RMB56.7 million in 2016 and 2017, respectively.

Income Tax Expense

Income tax expense decreased by 33.7% from RMB55.0 million in 2016 to RMB36.4 million in 2017 and our effective tax rate increased from 15.9% in 2016 to 17.4% in 2017. The increases were primarily due to the decrease in taxable profit.

Profit for the Year

As a result of the foregoing, our profit decreased by 40.4% from RMB291.2 million in 2016 to RMB173.6 million in 2017, and our net profit margin decreased from 7.6% in 2016 to 3.6% in 2017.

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Revenue

Our revenue increased by 8.5% from RMB3,521.9 million in 2015 to RMB3,821.7 million in 2016. The increase was primarily a result of the growth in revenue generated from both All Steel Radial Tires and Semi-Steel Radial Tires business, which was in turn primarily attributable to the increases in sales volume on both types of products.

All Steel Radial Tires

Revenue we derived from our All Steel Radial Tires sales increased by 10.7% from RMB2,647.7 million in 2015 to RMB2,930.7 million in 2016. The growth in revenue was mainly attributable to an increase in the sales volume of our All Steel Radial Tires from approximately 3.3 million units to approximately 4.0 million units, and in terms of sales

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channel, such growth in sales volume is primarily a result of a growth in sales in the domestic replacement All Steel Radial Tires market. The increase in sales was partially offset by a decrease in the average selling price of our All Steel Radial Tires products, which was in turn partially resulted from the decrease of rubber prices.

Semi-Steel Radial Tires

Revenue we derived from our Semi-Steel Radial Tires sales increased by 3.1% from RMB654.4 million in 2015 to RMB674.7 million in 2016. The growth in revenue was mainly attributable to an increase in the sales volume of our Semi-Steel Radial Tires from approximately 3.8 million units to approximately 4.1 million units, and in terms of sales channel, such growth in sales volume is primarily a result of a growth in sales in the domestic replacement Semi-Steel Radial Tires market, including an increase in our sales of Sports Utility Vehicle tires. The increase in sales volume of our Semi-Steel Radial Tires products was partially offset by a decrease in the average selling price of such products, which was in turn partially resulted from the decrease of rubber prices.

Bias Tires

Revenue we derived from our sales of Bias Tires decreased by 1.6% from RMB219.8 million in 2015 to RMB216.3 million for the year ended December 31, 2016. Such decrease was mainly a result of a reduction in the sales price of Bias Tires, which was mainly attributable to the decrease of rubber prices. The decrease in domestic Bias Tires sales was partially offset by the increase in our sales of Bias Tires to overseas customers.

Cost of Sales

Cost of sales increased by 6.0% from RMB2,823.7 million in 2015 to RMB2,993.9 million in 2016. The increase was primarily due to a growth in raw material costs and labor costs. In turn, the increase in raw materials costs was a result of growth in our sales volume that lead to an increased demand for raw materials, particularly natural rubber and synthetic rubber. The increase in costs that resulted from the growth in volume of raw material consumed was partially offset by a decrease in the prices of natural rubber and synthetic rubber. At the same time, our labor costs increased as a result of both an increase in headcount and the average salary of our employee.

All Steel Radial Tires

The costs we incurred for our All Steel Radial Tires business increased by 7.7% from RMB2,114.3 million in 2015 to RMB2,277.7 million in 2016. The growth in cost of sales was mainly attributable to an increase in labor costs and an increase in the cost of the raw materials consumed, mainly natural rubber and synthetic rubber, which in turn was primarily a result of an increase in the sales volume of our All Steel Radial Tire products. Such increase was partially offset by a decrease in the price of natural rubber and synthetic rubber applied to produce our All Steel Radial Tire products.

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Semi-Steel Radial Tires

The costs we incurred for our Semi-Steel Radial Tires business increased by 2.6% from RMB541.3 million in 2015 to RMB555.1 million in 2016. The growth in cost of sales was mainly attributable to an increase in labor costs and an increase in the cost of the raw materials consumed, mainly natural rubber and synthetic rubber, which in turn was primarily a result of an increase in the sales volume of our Semi-Steel Radial Tire products. Such increase was partially offset by a decrease in the price of natural rubber and synthetic rubber applied to produce our Semi-Steel Radial Tire products.

Bias Tires

The costs we incurred for our Bias Tires business decreased by 4.1% from RMB168.0 million in 2015 to RMB161.1 million in 2016. The decrease in cost of sales was mainly attributable to a general reduction in the price of natural rubber and synthetic rubber applied to produce our Bias Tires products.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by 18.6% from RMB698.2 million in 2015 to RMB827.8 million in 2016, while our gross profit margin increased from 19.8% in 2015 to 21.7% in 2016. Such increase were mainly attributable to the decrease of the average procurement price for natural rubber and synthetic rubber.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 11.2% from RMB265.9 million in 2015 to RMB295.8 million in 2016. The increase in our selling and distribution expenses was mainly attributable to the increases in transportation expenses and warranty claims, both of which were in line with the increase in our sales volume of our All Steel Radial Tires and Semi-Steel Radial tires.

Research and Development Costs

Research and development costs increased by 17.5% from RMB64.4 million in 2015 to RMB75.6 million in 2016, primarily due to an increase in our salaries and benefits cost for research and development personnel and the increase in service fee, which was in turn mainly attributable to our increased investment in research and development.

Administrative Expenses

Administrative expenses increased by 1.2% from RMB71.9 million in 2015 to RMB72.8 million in 2016. The increase was primarily due to increases in salaries and benefit cost of our administrative staff.

Other Income

Other income increased by 5.8% from RMB18.2 million in 2015 to RMB19.2 million in 2016, primarily attributable to the increase in the government grants we received.

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Other Gains – Net

We recognized net other gains of RMB35.6 million in 2015 and RMB12.2 million in 2016. Such gains were mainly due to the appreciation of the exchange rate of U.S. dollar against RMB.

Finance Costs – Net

Our net finance costs decreased significantly from RMB49.2 million in 2015 to RMB13.8 million in 2016. The decrease was primarily due to a decrease in interest expenses we incurred on bank borrowings, which is a direct result of a reduction in the amount of our bank borrowings we carried in 2016. Our interest expenses on convertible redeemable preferred shares was RMB3.9 million and RMB12.8 million in 2015 and 2016, respectively. We began to incur such interest experiences since October 2015.

Losses from fair value change of convertible redeemable preferred shares

We recognized losses from fair value change of convertible redeemable preferred shares in the amount of RMB4.6 million and RMB55.0 million in 2015 and 2016, respectively.

Income Tax Expense

Income tax expense decreased significantly from RMB133.0 million in 2015 to RMB55.0 million for the year ended December 31, 2016 and our effective tax rate decreased from 44.9% in 2015 to 15.9% in 2016. The decrease was primarily attributable to the provision of a one-off withholding tax in the amount of RMB89.8 million on a dividend distribution in 2015 in connection with the reorganization.

Profit for the Year

As a result of the foregoing, our profit before income tax increased by 16.9% from RMB296.1 million in 2015 to RMB346.2 million in 2016, our profit for the year increased by 78.5% from RMB163.1 million in 2015 to RMB291.2 million in 2016, and our net profit margin for the year increased from 4.6% in 2015 to 7.6% in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of liquidity were cash generated from our operations and bank loans. Our principal uses of cash primarily include capital expenditures to fund the expansion of our business and working capital. As of December 31, 2015, 2016 and 2017 and March 31, 2018, we had cash and cash equivalents of RMB154.4 million, RMB709.9 million, RMB688.0 million and RMB441.8 million, respectively.

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Cash Flows

The following table sets forth a summary of our net cash flows for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Net cash generated from/(used in) operating activities	716,186	692,902	180,074	(68,896)	220,947
Net cash generated from/(used in) investing activities	188,916	(92,323)	(73,767)	89,423	(290,232)
Net cash used in financing activities	(928,279)	(66,705)	(97,215)	(311,297)	(163,391)
Cash and cash equivalents at the beginning of the year/period	173,846	154,425	709,914	709,914	687,998
Net (decrease)/increase in cash and cash equivalent	(23,177)	533,874	9,092	(290,770)	(232,676)
Exchange gain/(loss) on cash and cash equivalent	3,756	21,615	(31,008)	(2,298)	(13,556)
Cash and cash equivalents at the end of the year/period	<u>154,425</u>	<u>709,914</u>	<u>687,998</u>	<u>416,846</u>	<u>441,766</u>

Operating activities

During the Track Record Period, net cash generated from operating activities was primarily attributable to cash generated from operations, which was partially offset by interest payment and income tax paid. For more details on our interest payment please refer to “– Indebtedness” and for more details on our income tax, please refer to “– Description of Key Consolidated Statement of Profit or Loss Line Items – Income Tax Expense”.

Net cash generated from operating activities in the three months ended March 31, 2018 was RMB220.9 million, primarily attributable to cash generated from operations of RMB254.4 million, offset by income tax paid of RMB30.9 million. Cash generated from operations in the three months ended March 31, 2018 can be reconciled from our profit before tax of RMB125.4 million primarily by positive adjustment of (i) depreciation of property, plant and equipment of RMB46.8 million; (ii) decrease in inventories of RMB90.0 million; and (iii) increase in trade payable of RMB83.0 million, which was in line with the increase in our production activities; and (iv) an increase in contract liabilities of RMB36.4 million, which was cash or

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bank acceptance notes we collected from the customers before or upon deliveries of products, recognized pursuant to HKFRS 15 upon its adoption on January 1, 2018, partially offset primarily by negative adjustment of (v) an increase in trade receivable of RMB134.2 million, which was in line with the increase in our sale revenue.

Net cash generated from operating activities in 2017 was RMB180.1 million, primarily attributable to cash generated from operations of RMB260.7 million, offset by interest payment of RMB15.2 million and income tax paid of RMB65.5 million. Cash generated from operations in 2017 can be reconciled from our profit before tax of RMB210.0 million primarily by positive adjustment of (i) depreciation of property, plant and equipment of RMB185.3 million; (ii) loss from fair value change of convertible redeemable preferred shares of RMB56.7 million and (iii) an increase in trade payable of RMB59.8 million, which was in line with the increase in our production activities and raw material procurement, partially offset primarily by negative adjustment of (iv) an increase in trade receivable of RMB204.3 million, which was in line with the increase in our sale revenue; and (v) an increase in inventories of RMB63.9 million, which was primarily due to increase in raw materials in our inventory.

Net cash generated from operating activities in 2016 was RMB692.9 million, primarily attributable to cash generated from operations of RMB728.0 million, offset by interest payment of RMB6.4 million and income tax paid of RMB28.7 million. Cash generated from operations in 2016 can be reconcile from our profit before tax of RMB346.2 million primarily by positive adjustment of (i) depreciation of property, plant and equipment of RMB187.3 million; (ii) loss from fair value change of convertible redeemable preferred shares of RMB55.0 million; (iii) increase in trade payable of RMB187.5 million, which was in line with the increase in our production activities and raw material procurement; and (iv) increase in other payables and accruals of RMB62.1 million, which was primarily due to an increase in other tax payables, partially offset primarily by negative adjustment of (v) an increase in trade receivable of RMB145.2 million, which was in line with the increase in our sale revenue.

Net cash generated from operating activities in 2015 was RMB716.2 million, primarily attributable to cash generated from operations of RMB843.4 million, offset by interest payment of RMB45.0 million and income tax paid of RMB82.2 million. Cash generated from operations in 2015 can be reconciled from our profit before tax of RMB296.1 million primarily by positive adjustment of (i) depreciation of property, plant and equipment of RMB186.6 million; and (ii) a decrease in trade receivable of RMB270.7 million, which was primarily due to our collection efforts.

Investing activities

During the Track Record Period, our investing activities mainly included:

- Purchase or sale of available-for-sale financial assets, which primarily include wealth-management financial products, as a means to actively manage our cash on hand;

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- Purchase or renovation of property, plant and equipment, which mainly include production related plant, equipment or facilities; and
- Purchase and sales of financial assets at fair value through profit or loss, which mainly include purchase or disposal of currency swaps in relation to Euro.

For more details on the purchase and disposal of wealth-management financial products and currency swap contracts, please refer to the subsections headed “– Available-for-sale financial asset”, “– Financial assets at fair value through profit or loss” and “– Internal policy in relation to purchase and disposal of financial products” in the “Description of Certain Line Items in the Consolidated Statements of Financial Position” section.

Net cash used in investing activities in the three months ended March 31, 2018 was RMB290.2 million, primarily attributable to (i) RMB53.8 million incurred in connection with the disposal of equity interest in Chengshan (Malaysia) to Chengshan Group in March 2018, for more details, please refer to the section headed “History, Reorganization and Corporate Structure-Chengshan (Malaysia)” and “Relationship with Controlling Shareholders – Deed of Non-Competition”; (ii) RMB48.0 million used in the purchases of property, plant and equipment in connection with certain technology renovations; and (iii) RMB216.7 million net cash used in the purchase and the disposal of financial assets at fair value through profit or loss.

Net cash used in investing activities in 2017 was RMB73.8 million, primarily attributable to: (i) RMB16.4 million net cash used in the purchase and the disposal of available-for-sale financial assets; and (ii) RMB131.1 million used in the purchases of property, plant and equipment, partially offset by RMB80.0 million net cash generated from repayment of loans granted to a related party.

Net cash used in investing activities in 2016 was RMB92.3 million, which was primarily due to (i) RMB75.6 million for purchases of property, plant and equipment and (ii) RMB15.6 million net cash used in purchase and disposal of available for-sale financial assets.

Net cash generated from investing activities in 2015 was RMB188.9 million, primarily due to (i) RMB191.8 million net cash generated from disposal and purchase of available-for-sale financial assets and (ii) RMB35.5 million from repayment of loans granted to a related party, which was partially offset by (iii) RMB47.8 million used for the purchase of property, plant and equipment.

Financing activities

During the Track Record Period, our financing activities consisted primarily of procurement and repayment of bank borrowing and loan transactions with related parties. Net cash used from financing activities was also affected by certain one-off events, such as capital injection by shareholder, proceeds from issuance of preferred shares and dividend payment.

Net cash used in financing activities in the three months ended March 31, 2018 was RMB163.4 million, primarily attributable to (i) RMB100.7 million of repayments of loans from Chengshan Group and (ii) RMB84.0 million of cash dividend paid to Chengshan Group.

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Net cash used in financing activities in 2017 was RMB97.2 million, primarily attributable to (i) RMB318.6 million of repayments of loans from related parties, (ii) RMB85.3 million of increase in restricted cash pledged as security for bank borrowings, and (iii) RMB33.0 million repayment of bank borrowings, which was partially offset by (iv) RMB340.9 million proceeds received from bank borrowings.

Net cash used in financing activities in 2016 was RMB66.7 million, primarily attributable to (i) RMB185.7 million in repayment of borrowings, and (ii) RMB27.5 million in dividends paid, partially offset by (iii) RMB86.6 million in loans received from related parties, and (iv) RMB60.0 million in proceeds received from bank borrowings.

Net cash used in financing activities in 2015 was RMB928.3 million, primarily attributable to (i) RMB1,084.1 million in repayment of bank borrowings, (ii) RMB592.6 million in repayments of loan from related parties, (iii) RMB492.4 million in consideration paid in relation to the Reorganization and (iv) RMB485.0 million in dividends paid, partially offset by (v) RMB1,230.4 million in capital injection by shareholders, (vi) RMB254.0 million in proceeds from issuance of preferred shares, (vii) RMB170.1 million in proceeds from bank borrowings, and (viii) RMB71.4 million from loans received from related parties.

CAPITAL EXPENDITURES

Our capital expenditures, which consisted primarily of expenditures on property, plant and equipment, intangible assets and land use rights, were RMB46.1 million, RMB86.3 million, RMB145.8 million and RMB34.5 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. We fund these expenditures primarily with cash generated from our operating activities. The following table sets forth our capital expenditure for the periods indicated.

	Year ended December 31,			Three months ended March 31,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	44,900	85,284	134,228	34,538
Intangible assets	1,161	1,044	1,153	–
Land use rights	–	–	10,381	–
Total	46,061	86,328	145,762	34,538

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We expect to incur capital expenditures of approximately RMB717.0 million in 2018, mainly relating to the expansion at production capacity.

We expect to fund these capital expenditures with cash generated from our operations, bank and other borrowings and proceeds from the Global Offering. For more details of our planned capital expenditure, please refer to “Future Plans and Use of Proceeds” and “Business – Our Strategies”.

WORKING CAPITAL

Net Current Assets

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of	As of
	2015	2016	2017	March 31,	July 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Current assets					
Inventories	607,710	625,670	687,203	597,029	638,074
Trade receivables	622,467	767,710	971,272	1,104,616	1,017,183
Prepayments and other receivables	20,251	8,082	32,948	42,819	67,286
Available-for-sale financial assets	91,600	110,620	130,000	–	–
Financial assets at fair value through profit or loss	–	–	–	346,358	518,938
Amounts due from related parties	92,124	104,421	19,369	48,572	35,064
Cash and cash equivalents	154,425	709,914	687,998	441,766	515,153
Restricted cash	47,605	39,107	120,299	108,579	88,165
Total current assets	<u>1,636,182</u>	<u>2,365,524</u>	<u>2,649,089</u>	<u>2,689,739</u>	<u>2,879,863</u>
Current liabilities					
Trade payables	659,780	847,275	907,106	990,073	1,179,709
Other payables and accruals	332,079	400,468	379,707	362,158	361,418
Contract Liabilities	–	–	–	36,354	32,607
Provision for warranties	77,088	82,865	87,405	87,936	87,670
Amounts due to related parties	346,408	470,768	249,266	153,765	49,972
Current income tax liabilities	50,610	82,528	44,222	33,201	30,495
Bank borrowings	93,563	–	306,075	303,737	258,757
Total current liabilities	<u>1,559,528</u>	<u>1,883,904</u>	<u>1,973,781</u>	<u>1,967,224</u>	<u>2,000,628</u>
Net current assets	<u>76,654</u>	<u>481,620</u>	<u>675,308</u>	<u>722,515</u>	<u>879,235</u>

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We had net current assets of RMB722.5 million as of March 31, 2018, as compared to RMB675.3 million as of December 31, 2017. The increase was primarily due to (i) RMB346.4 million increase in financial assets at fair value through profit or loss, partially offset by (ii) RMB130.0 million decrease in available-for-sale financial assets due to our wealth management in the period and (iii) RMB246.2 million decrease in cash and cash equivalent.

We had net current assets of RMB675.3 million as of December 31, 2017 as compared with net current assets of RMB481.6 million as of December 31, 2016. The increase in net current assets was primarily attributable to (i) RMB203.6 million increase in trade receivables and (ii) RMB221.5 million decrease in amounts due to related parties, partially offset by (iii) RMB306.1 million increase in short-term bank borrowings.

We had net current assets of RMB481.6 million as of December 31, 2016 as compared with net current assets of RMB76.7 million as of December 31, 2015, which was primarily attributable to (i) RMB555.5 million increase in cash and cash equivalents, (ii) RMB145.2 million increase in trade receivables and (iii) RMB93.6 million decrease in short-term bank borrowings, partially offset by (iv) RMB187.5 million increase in trade payables and (v) RMB124.4 million increase in amounts due to related parties.

WORKING CAPITAL SUFFICIENCY STATEMENT

Taking into account our internal resources, our cash flow from operations, available banking facilities and the net proceeds available to us from the Global Offering, our Directors are of the opinion that we have sufficient working capital for at least the next 12 months following the date of this prospectus.

After due consideration, our Directors does not believe there will be any material changes in the composition and trend of our capital expenditure in the next 12 months barring any material unforeseeable circumstances.

After due consideration and discussions with the Company's management and based on the above and the assumption that there is no material change in the composition and trend of the Group's capital expenditure, the Sole Sponsor has no reason to believe that the Company cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

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DESCRIPTION OF CERTAIN LINE ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

The following table sets forth the components of our inventories as of the dates indicated.

	As of December 31,			As of
	2015	2016	2017	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
	<u><i>RMB'000</i></u>	<u><i>RMB'000</i></u>	<u><i>RMB'000</i></u>	<u><i>RMB'000</i></u>
Raw materials	196,643	136,191	176,393	202,027
Work-in-progress	25,313	44,691	44,031	43,623
Finished goods	393,061	447,262	468,100	352,558
	<u>615,017</u>	<u>628,144</u>	<u>688,524</u>	<u>598,208</u>
Provision for impairment of inventory	<u>(7,307)</u>	<u>(2,474)</u>	<u>(1,321)</u>	<u>(1,179)</u>
	<u><u>607,710</u></u>	<u><u>625,670</u></u>	<u><u>687,203</u></u>	<u><u>597,029</u></u>

Inventories increased from RMB607.7 million as of December 31, 2015 to RMB625.7 million as of December 31, 2016, primarily due to an increase in finished goods and work in progress products and a decrease in allowance for impairment of inventory, which was generally in line with our increase in sales in 2016. The increase was partially offset by a decrease in raw materials inventories, which was a result of enhanced management of our production schedule and strengthened control over inventory of raw materials. Inventories increased from RMB625.7 million as of December 31, 2016 to RMB687.2 million as of December 31, 2017, primarily due to the increase in raw materials. Inventories decreased from RMB687.2 million as of December 31, 2017 to RMB597.0 million as of March 31, 2018, primarily due to a decrease in finished goods, which was in turn a result of the increase in product demand and limitation on our production capacity. As of July 31, 2018, RMB573.3 million, or 95.8%, of our inventories outstanding as of March 31, 2018 were utilized or sold.

As of December 31, 2015, 2016, 2017 and March 31, 2018, we made provisions of RMB7.3 million, RMB2.5 million, RMB1.3 million and RMB1.2 million for the impairment of inventories, respectively. We made provisions for impairment of inventories as the carrying value of inventories were below net realizable value.

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The following table sets forth our inventory turnover days for the periods indicated.

	Year ended December 31,			Three months ended March 31,
	2015	2016	2017	2018
				2018
Inventory turnover days ⁽¹⁾	86	76	59	53

Note:

- (1) Calculated by dividing the average balance of gross inventories by cost of sales for the relevant period multiplied by 365 days for the years of 2015, 2016 and 2017 or 90 days for the three months ended March 31, 2018. Average balance is the sum of the beginning balance and ending balance for the period divided by two.

Our inventory turnover days decreased from 86 days in 2015 to 76 days in 2016, to 59 days in 2017 and further to 53 days in the three months ended March 31, 2018. The decreases were in part attributable to the increase in demand in our products and the resulting increase in sales volume.

Trade Receivables

The following table sets forth the components of our trade receivables as of the dates indicated.

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable	443,626	540,738	533,612	770,354
Less: provision for impairment of trade receivables	(31,252)	(12,060)	(11,574)	(12,418)
Accounts receivable – net	412,374	528,678	522,038	757,936
Notes receivable	210,093	239,032	449,234	346,680
Trade receivables – net	622,467	767,710	971,272	1,104,616

Trade receivables consisted of accounts receivables and notes receivables. Trade receivables increased from RMB622.5 million as of December 31, 2015 to RMB767.7 million as of December 31, 2016, to RMB971.3 million as of December 31, 2017 and to RMB1,104.6 million as of March 31, 2018, which were generally in line with the increases of our sales volume. As of July 31, 2018, RMB710.9 million or 92.3% and RMB324.2 million or 93.5%, of our account receivables and notes receivables as of March 31, 2018 were settled, respectively.

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We generally grant our customers a credit period of no more than two months. Credit period longer than two months generally needs to be approved by management. Our senior management evaluates requests for extension of credit term on a case-by-case basis in compliance with our internal credit review policy and based on factors such as the customer's credit history, reputation and business relationship with us. The table below sets forth an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	534,519	712,896	841,588	852,646
4 to 6 months	70,038	34,436	122,276	217,856
7 to 12 months	5,693	7,501	5,478	29,424
1 to 2 years	17,118	11,548	5,410	8,952
2 to 3 years	147	9,070	3,859	3,921
Over 3 years	26,204	4,319	4,235	4,235
	<u>653,719</u>	<u>779,770</u>	<u>982,846</u>	<u>1,117,034</u>

Trade receivables outstanding for three months or less accounted for 81.8%, 91.4%, 85.6% and 76.3% of our total trade receivable as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively.

The following table sets forth the turnover days for our trade receivables for the periods indicated.

	Year ended December 31,			Three months ended March 31,
	2015	2016	2017	2018
	Trade receivables turnover days ⁽¹⁾	82	68	66

Note:

- (1) Calculated by dividing the average balance of gross trade receivables by revenues for the relevant period multiplied by 365 days for the years of 2015, 2016 and 2017 or 90 days for the three months ended March 31, 2018. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

Our trade receivables turnover days decreased from 82 days in 2015 to 68 days in 2016, primarily due to our collection efforts. Our trade receivables turnover days remained stable at 68 days, 66 days and 70 days in 2016 and 2017 and three months ended March 31, 2018, respectively.

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Trade Payables

The following table sets forth the components of our trade payables as of the dates indicated.

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payable	352,299	554,655	633,276	755,113
Notes payable	307,481	292,620	273,830	234,960
Total	<u>659,780</u>	<u>847,275</u>	<u>907,106</u>	<u>990,073</u>

Trade payables consisted of account payables and notes payables. Trade payables increased from RMB659.8 million as of December 31, 2015 to RMB847.3 million as of December 31, 2016, to RMB907.1 million as of December 31, 2017 and to RMB990.1 million as of March 31, 2018, primarily due to increases in both the volume of raw materials we purchased in connection with the increases of our production activities. Such increase was partially offset by a decrease in notes payables. As of July 31, 2018, RMB830.9 million, or 83.9%, of our trade payables outstanding as of March 31, 2018 were settled.

Our suppliers generally allow us the payment term of 30 days for rubber and 60 days to 90 days for other materials from the time of freight-on-board. The table below sets forth an aging analysis of our trade payables as of the dates indicated.

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within three months	426,778	631,380	621,330	740,750
Four to six months	203,892	191,331	266,197	226,675
Seven months to twelve months	9,214	6,719	7,810	10,009
Above one years	19,896	17,845	11,769	12,639
Total	<u>659,780</u>	<u>847,275</u>	<u>907,106</u>	<u>990,073</u>

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The following table sets forth the turnover days for our trade payable for the periods indicated.

	Year ended December 31,			Three months ended
				March 31,
	2015	2016	2017	2018
Trade payables turnover days ⁽¹⁾	85	92	79	78

- (1) Calculated by dividing the average balance of trade payables by cost of sales for the relevant period multiplied by 365 days for the years of 2015, 2016 and 2017 or 90 days for the three months ended March 31, 2018. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

Our trade payables turn over days increased from 85 days in 2015 to 92 days in 2016, primarily due to the increase in our procurement of raw materials. Our trade payable turnover days decreased from 92 days in 2016 to 79 days in 2017, primarily due to (i) the increase of the proportion of rubber to total value of raw materials purchased in 2017 as a result of the increase of rubber prices and (ii) the generally shorter payment terms of rubber purchase granted to us as compared to other raw materials. Our trade payable turnover days was 78 days in the three months ended March 31, 2018, which was primarily affected by the shorter credit period of carbon black.

Other Payables and Accruals

	As of December 31,			As of
				March 31,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accrued sales rebate and commission	109,744	85,732	50,454	70,417
Accrued expenses	55,109	59,137	69,854	77,617
Other payables	46,555	59,573	67,316	75,668
Payroll and employee benefit payables	64,162	77,167	84,728	88,589
Other tax payables	30,789	64,652	10,479	25,431
Advances from customers	23,191	31,537	73,415	–
Deposit from customers	2,335	22,670	23,214	24,124
Interest payables	194	–	247	312
	332,079	400,468	379,707	362,158

Our other payables and accruals increased from RMB332.1 million as of December 31, 2015 to RMB400.5 million as of December 31, 2016 mainly because of increases in (i) other tax payables, which includes taxes incurred in relation to value added tax, (ii) payroll and employee benefit payables which was in line with our production increase, (iii) deposit from customers mainly related to overseas customers, which was in line with our overseas sales growth, and (iv) advances from customers.

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Our other payables and accruals decreased from RMB400.5 million as of December 31, 2016 to RMB379.7 million as of December 31, 2017 mainly because of decreases in (i) other tax payables, which includes taxes incurred in relation to value added tax, and (ii) accrued sales rebate and commission, partially offset by (iii) an increase in advances from customers, which was in line with the increase in our sales volume in 2017.

Our other payables and accruals decreased from RMB379.7 million as of December 31, 2017 to RMB362.2 million as of March 31, 2018 mainly attributable of decreases in (i) a decrease in advances from customers, mainly due to delivery of prepaid goods, partially offset by (ii) an increase in accrued sales rebate and commission mainly due to timing of payment of rebates and commission.

Provision for the discrepancy in employee benefit contribution were approximately RMB29.8 million, RMB29.1 million, RMB29.5 million and RMB31.8 million as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively, which was mainly attributable to the underpayment of various employee benefit plans as compared to the requirements by PRC regulations. Such underpayment was due to our making contribution based on the base salaries of the employees. For more details, please refer to “Risk Factors – Risk Related to Our Business and Industry – Discrepancy in contributions to various employee benefit plan as required by PRC regulations may subject us to penalties.”

We have obtained the confirmation from the relevant government authorities that we complied with the relevant laws and regulations in all material aspects and the competent authorities will not demand remedial payment or impose administrative punishment. We are advised by our PRC Legal Adviser that the local government authorities that issued the compliance confirmation are competent authorities to confirm the matters referenced in the compliance confirmation and issue such compliance confirmation. Based on the above and as advised by our PRC Legal Adviser, our Directors believe that the possibility of us being penalized by the relevant government authorities for the under-payment of the social insurance and the housing provident funds is low.

Contract liabilities

Contract liabilities were cash or bank acceptance notes we collected from the customers before deliveries of products, recognized pursuant to HKFRS 15 upon its adoption on January 1, 2018.

Intangible Assets

We had intangible assets of RMB87.3 million, RMB76.6 million, RMB65.9 million and RMB63.0 million as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively. Our intangible assets mainly included:

- goodwill, which was mainly related to the excess portion of acquisition consideration over the fair value in connection with the acquisition of 65% equity interest in Prinx Chengshan (Shangdong) Tire Company Limited in November 2014;

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- contractual customer relationship, which was recognised at fair value in connection with the acquisition of 65% equity interest in Prinx Chengshan (Shangdong) Tire Company Limited in November 2014; and
- computer software.

During the Track Record Period, amortization of the intangible assets was been charged to administrative expenses. Please refer to “– Critical Accounting Policies, Accounting Estimates and Judgment – Intangible assets” for more information.

Available-for-sale financial assets

We had available-for-sale financial assets of RMB91.6 million, RMB110.6 million, RMB130.0 million and nil as of December 31, 2015, 2016, 2017 and March 31, 2018, respectively. We purchased, disposed of available-for-sale financial assets as a means to manage liquidity and generate returns from cash on hand. The available-for-sale financial assets we purchased mainly included low-risk RMB-denominated wealth management products offered by major PRC banks, including Bank of China, China Construction Bank, Industrial and Commercial Bank of China, and Agricultural Bank Of China. The expected return rates ranged from 1.7% to 5.5%, with no fixed maturities or with maturities of no more than one year and contract values ranged from RMB1 million to RMB130 million from 2015 to 2017.

We adopted HKFRS 9 from January 1, 2018 pursuant to which available-for-sale financial assets was reclassified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

In 2015, 2016 and 2017, our financial assets at fair value through profit or loss were currency swaps mainly for U.S. Dollar in relation to Euro. We purchased and disposed of such financial instruments offered by major PRC banks, including Bank of China, China Construction Bank, Industrial and Commercial Bank of China, and Agricultural Bank of China, mainly as a mean to improve utilization of our cash-on-hand on a short-term basis and mitigate certain foreign exchange risk. We mainly purchase swaps that were labeled as low-risk financial products by the banks with return rates fixed at the time of purchase that ranging from 0.6% to 3.6% per annum. Contract values ranged from US\$1 million to US\$19 million and maturity ranged from a few days to a month from 2015 to 2017. We had nil financial assets at fair value through profit or loss as of December 31, 2015, 2016 and 2017 as we typically clear the balance of all currency swaps by year end.

Starting from January 1, 2018, our financial assets at fair value through profit or loss also included wealth-management products. As of March 31, 2018, we had outstanding wealth management products and currency swaps of RMB199.3 million and RMB147.0 million, respectively.

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Internal policy in relation to purchase and disposal of financial products

During the Track Record Period, we mainly purchased and disposed of two types of financial products, namely, (i) short-term wealth management products which were recognized as available-for-sale financial assets prior to January 1, 2018 and as financial assets at fair value through profit or loss after January 1, 2018 as a result of the adoption of HKFRS 9 and (ii) currency swaps which were recognized as financial assets at fair value through profit or loss.

To further reduce potential risk, we have implemented an internal policy in relation to purchase and disposal of financial products. Our policy focuses on avoiding undue risk in the purchase of such products. The policy sets forth the approval process of the purchase of such products, the responsible department for the enforcement of the policy, and internal penalty measures for failing to comply with the policy. Purchase of financial products need to be approved by the general manager of the financial department, except for, amongst others, currency swaps with fixed return rate, which are deemed to have low risk and only requires review and approval by the manager of the capital management department. Accounting staff is required to closely monitor the financial products we purchased to avoid risk. When a position is closed out, the accounting staff is required to procure original transaction documents from the bank counterparty for record.

Amount Due from/to Related Parties

As of December 31, 2015, 2016, 2017 and March 31, 2018, amount due from related parties were RMB92.1 million, RMB104.4 million, RMB19.4 million and RMB48.6 million, respectively. Trade balance due from related parties consisted primarily of outstanding amounts for the sales of products to Sinotruk. The following table sets forth the components of amount due from related parties as of the dates indicated.

	As of December 31,			As of
	2015	2016	2017	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
				<i>RMB'000</i>
– Chengshan Trade (Non-trade balance)	3	3	–	–
– Chengshan Group (Non-trade balance)	76,140	79,999	–	–
– Sinotruk Group (Trade balance)	15,981	24,419	19,369	48,572
	<u>92,124</u>	<u>104,421</u>	<u>19,369</u>	<u>48,572</u>

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Amounts due to related parties included loans granted to us by related parties to support our operations and capital needs and delivered payables. As of December 31, 2015, 2016, 2017 and March 31, 2018, amounts due to related parties were RMB346.4 million, RMB470.8 million, RMB249.3 million and RMB153.8 million, respectively. Loans from related parties outstanding as of December 31, 2015, 2016, 2017 and March 31, 2018 were unsecured, non-interest bearing and had no fixed repayment term. Our Directors confirm that we will repay all balance of loan amount due to related parties prior to Listing and do not expect to incur similar loans from related parties going forward. The following table sets forth the components of amount due to related parties as of the dates indicated.

	As of December 31,			As of
	2015	2016	2017	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2018 <i>RMB'000</i>
Chengshan Trade	293,090	399,420	81,404	–
Chengshan Group	35,029	37,421	28,348	5,304
	<u>328,119</u>	<u>436,841</u>	<u>109,752</u>	<u>5,304</u>
Dividend payable				
– Chengshan Group	–	–	85,585	82,257
Interest payable				
– Sinotruk Capital	3,931	12,773	12,428	12,065
Trade payable				
– Chengshan Group	14,358	21,154	41,501	54,139
Total	<u>346,408</u>	<u>470,768</u>	<u>249,266</u>	<u>153,765</u>

The Directors have confirmed that transactions with the related parties were conducted on normal commercial terms and were fair and reasonable and in the interest of the Shareholders as a whole, and all non-trade receivables and non-trade payables will be settled prior to the Listing. The Directors also believe that those transactions with related parties and amounts due to and due from related parties did not distort the Group's result of operations during the Track Record Period.

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INDEBTEDNESS

Borrowings and Loans from Related Parties

The following table sets forth the components of our bank borrowings and loans from related parties as of the dates indicated.

	As of December 31,			As of March 31,	As of July 31,
	2015	2016	2017	2018	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Non-current:					
Bank borrowings – unsecured	51,949	–	–	–	–
Less: current portion of long-term bank borrowings	(19,481)	–	–	–	–
Subtotal	32,468	–	–	–	–
Current:					
Short-term bank borrowings					
– secured	–	–	256,075	253,737	258,757
– unsecured	74,082	–	50,000	50,000	–
Add: current portion of long-term bank borrowings	19,481	–	–	–	–
Loans from related parties					
– unsecured	328,119	436,841	109,752	5,304	5,749
Subtotal	421,682	436,841	415,827	309,041	264,506
Total	454,150	436,841	415,827	309,041	264,506

We primarily incur bank borrowings to supplement our working capital. We had outstanding bank borrowing of RMB126.0 million, nil, RMB306.1 million and RMB303.7 million as of December 31, 2015, 2016, 2017 and March 31, 2018, respectively. As of December 31, 2015, 2016, 2017, March 31, 2018, the weighted average effective interest rate of our bank borrowings was 2.93%, nil, 3.31% and 3.31%, respectively. All of our bank borrowing outstanding as of December 31, 2015 was denominated in U.S. dollar, 79.7% and 20.3% of our bank borrowing outstanding as of December 31, 2017 was denominated in RMB and U.S. dollar, respectively, and 80.3% and 19.7% of our bank borrowings outstanding as of March 31, 2018 was denominated in RMB and U.S. dollar, respectively.

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As of December 31, 2015, 2016, 2017 and March 31, 2018, we had RMB1,765.1 million, RMB1,514.6 million, RMB1,275.7 million and RMB1,250.3 million undrawn borrowing facilities that would expire within one year. We also had RMB173.9 million and RMB176.3 million undrawn borrowing facilities that would expire over one year as of December 31, 2017 and March 31, 2018, respectively.

As of July 31, 2018, being the latest practicable date for the purpose of this indebtedness statement, our total banking facilities of approximately RMB2,070.0 million from our lending bank, of which approximately RMB774.6 million was utilized and RMB1,295.4 million was unutilized. The banks who grant us banking facilities typically limit the use of the loan proceeds for working capital purposes. If we plan to use any of the proceeds to fund capital expenditure such as construction of production facilities or to acquire an overseas production base, we generally need to apply for approval from the banks who have discretion to reduce or cancel the facilities previously granted to us. In addition, the majority of our banking facilities are short-term facilities, making them unsuitable for capital expenditure such as construction of production facilities.

We had non-current portion of long-term bank borrowings of RMB32.5 million, nil, nil, and nil as of December 31, 2015, 2016, 2017 and March 31, 2018, respectively.

We had current portion of long-term bank borrowings and short-term bank borrowings of RMB93.6 million, nil, RMB306.1 million and RMB303.7 million as of December 31, 2015, 2016, 2017 and March 31, 2018. We incurred short-term bank borrowings primarily to satisfy our working capital requirements.

Loans from related parties outstanding as of December 31, 2015, 2016, 2017 and March 31, 2018 were unsecured, non-interest bearing and had no fixed repayment term. We plan to repay all balance of loan amount due to related parties prior to Listing and do not expect to incur similar loans from related parties going forward.

The following table sets forth the maturity profile of our borrowings and loans from related parties as of the dates indicated.

	As of December 31,			As of March 31,	As of July 31,
	2015	2016	2017	2018	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans due for repayment within one year	93,563	–	306,075	303,737	258,757

(Unaudited)

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	As of December 31,			As of March 31,	As of July 31,
	2015	2016	2017	2018	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans due for repayment after one year:					
Between one and two years	32,468	–	–	–	–
Loan from related parties due for repayment within one year	328,119	436,841	109,752	5,304	5,749
Total	<u>454,150</u>	<u>436,841</u>	<u>415,827</u>	<u>309,041</u>	<u>264,506</u>

(Unaudited)

Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans, default in payment of bank borrowings or breach of covenants, or cancellation of customer order or customer default during the Track Record Period and up to the Latest Practicable Date.

Financial liabilities at fair value through profit or loss

Our financial liabilities at fair value through profit or loss was RMB264.4 million, RMB339.3 million, RMB374.6 million and nil as of December 31, 2015, 2016, 2017 and March 31, 2018, respectively. For more details, please refer to “– Description of Key Consolidated Statement of Profit or Loss Line Items – Losses from fair value change of convertible redeemable preferred shares.”

Contingent Liabilities

We received USD payment from customers of the Group’s sales to Iran, Sudan and Syria during Track Record Period, which exposed the Group to potential violations of sanctions imposed by OFAC. We have filed VSD to OFAC in light of the potential violations on March 28, 2018. The VSD is still under review by OFAC and based on all the facts and circumstances and the assessment of our International Sanctions Legal Advisers, we are of the view that, the most likely results would be issuance by OFAC of a cautionary letter to close out the case without the imposition of any penalty. However, it is possible that a monetary fine of up to USD647,822 will be required if OFAC were to decide to impose an administrative penalty on us. According to the above assessment, the Directors do not consider it probable that the above administrative penalty will be imposed by OFAC and therefore no provision has been made in the consolidated financial statements for the contingent liabilities arising from the

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above potential violations during the Track Record Period and as at July 31, 2018, being the latest practicable date for the purpose of this indebtedness statement. For more details, please refer to “Risk Factors – Risks Related to our Business and Industry – We have previously made sales to distributors in Countries subject to International Sanctions administered by U.S., and we could be adversely affected if these sales result in penalties on our Group.”

Apart from above and as disclosed in the paragraph headed “Indebtedness”, as of July 31, 2018, being the latest practicable date for the purpose of this indebtedness statement, we did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

COMMITMENTS

The table below sets forth our commitments as of the dates indicated.

	As of December 31,			As of
	2015	2016	2017	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2018
Purchase of property, plant and equipment – Contracted but not provided for	22,483	18,379	39,940	35,958

As of December 31, 2015, 2016, 2017 and March 31, 2018, we had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As of December 31,			As of
	2015	2016	2017	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2018
No later than 1 year	8,295	8,334	1,631	9,549
Later than 1 year and no later than 5 years	11,009	2,675	1,344	16,131
	<u>19,304</u>	<u>11,009</u>	<u>2,975</u>	<u>25,680</u>

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SUMMARY OF KEY FINANCIAL RATIOS

	Year ended December 31,			Three months ended March 31,
	2015	2016	2017	2018
	Gross margin ⁽¹⁾	19.8%	21.7%	15.9%
Net profit margin ⁽²⁾	4.6%	7.6%	3.6%	8.0%
Return on equity ⁽³⁾	15.1%	21.2%	11.2%	24.1% ⁽⁵⁾
Return on total assets ⁽⁴⁾	4.6%	8.4%	4.5%	10.9% ⁽⁵⁾

- (1) Calculated by dividing gross profit by revenue for the period and multiplied by 100%.
- (2) Calculated by dividing net profit for the period by revenue for the period and multiplied by 100%.
- (3) Calculated by dividing net profit attributable to owner of the Company for the period by average equity attributable to owner of the Company as at the beginning and the end of the period and multiplied by 100%.
- (4) Calculated by dividing net profit for the period by average total assets as at the beginning and the end of the period and multiplied by 100%.
- (5) On an annualized basis.

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	Current ratio ⁽¹⁾	1.0	1.3	1.3
Quick ratio ⁽²⁾	0.7	0.9	1.0	1.1
Debt-to-equity ratio ⁽³⁾	0.1	–	0.2	0.2

- (1) Calculated by dividing current assets by current liabilities as at the end of the period.
- (2) Calculated by dividing the current assets less inventories by current liabilities as at the end of the period.
- (3) Calculated by dividing total debt by total equity as at the end of the period. Debt means our interest-bearing borrowings.

Please refer to “– Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016” and “– Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015” for a discussion of the factors affecting the growth of our gross and net profit margins during the respective periods.

Return on Equity and Return on Total Assets

Return on equity increased from 15.1% in 2015 to 21.2% in 2016. Return on total assets increased from 4.6% in 2015 to 8.4% in 2016. The increases were primarily due to the increase in our net profit.

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Return on equity decreased from 21.2% as of December 31, 2016 to 11.2% as of December 31, 2017. Return on total assets decreased from 8.4% as of December 31, 2016 to 4.5% as of December 31, 2017. The decreases were primarily attributable to the decrease in our net profit.

Return on equity increased from 11.2% in 2017 to 24.1% in the three months ended March 31, 2018. Return on total assets increased from 4.5% in 2017 to 10.9% in the three months ended March 31, 2018. The increases were primarily due to the increase in our net profit.

Current Ratio and Quick Ratio

Our current ratio increased from 1.3 as of December 31, 2017 to 1.4 as of March 31, 2018, and our quick ratio increased from 1.0 as of December 31, 2017 to 1.1 as of March 31, 2018. The increases primarily reflected the increase in the amount of financial assets at fair value through profit or loss as of March 31, 2018, which in turn, was in part a result of the increase in the net current assets.

Our current ratio remained stable at 1.3 as of December 31, 2016 and December 31, 2017, and our quick ratio increased from 0.9 as of December 31, 2016 to 1.0 as of December 31, 2017. The increase was primarily due to the fact that the increase in our current assets outpaced the increase in our current liabilities, which was in part attributable to the increase in our trade receivables as of December 31, 2017 as a result of the increase in our sales volume.

Our current ratio increased from 1.0 as of December 31, 2015 to 1.3 as of December 31, 2016, and our quick ratio increased from 0.7 as of December 31, 2015 to 0.9 as of December 31, 2016. The increases primarily reflected the increase in the amount of cash and cash equivalents we held as of December 31, 2016, which in turn, was a result of our cash generated from operations.

Debt-to-equity Ratio

We did not carry any debt as of December 31, 2016.

Our debt-to-equity ratio was 0.1 as of December 31, 2015 and 0.2 as of December 31, 2017 and 0.2 as of March 31, 2018. Please see “– Indebtedness” for further details.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT FINANCIAL RISK

We are exposed to various types of financial risk in the ordinary course of business, including market risk (consisting of foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

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Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are dominated in a currency that is not our functional currency. We mainly operates in the PRC, and is therefore exposed to foreign currency risks arising from various currency exposures, mainly with respect to US\$ due to certain financial assets and liabilities that denominated in US\$.

Exchange rate fluctuations and market trends have always been the concern of our Group. We may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the Track Record Period, we entered into currency swap contracts to mitigate the foreign exchange risk.

As of December 31, 2015, 2016, 2017 and March 31, 2018, if US\$ had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of US\$ denominated cash and cash equivalent, trade receivables, trade payables and bank borrowings in RMB functional currency subsidiaries. Our post-tax profit could decreased/increased by RMB5.2 million, RMB37.1 million, RMB30.7 million and RMB27.5 million, respectively.

Cash flow and fair value interest rate risk

Our interest rate risk arises from bank borrowings. Bank borrowings obtained at floating rates expose us to cash flow interest rate risk, and if at fixed rates expose us to fair value interest-rate risk.

As at December 31, 2015, if interest rates on bank borrowings which had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been approximately RMB0.32 million lower/higher mainly as a result of higher/lower interest expense on bank borrowings with floating rate. As at December 31, 2016, 2017 and March 31, 2018, we have no bank borrowings with floating rate.

Credit Risk

For the year ended December 31, 2015, 2016 and 2017

Credit risk arises from pledged bank deposits, cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our maximum exposure to credit risk in relation to the corresponding class of financial assets.

Our trade receivables at the end of each reporting period were mainly due from customers. For trade receivables, we perform ongoing credit evaluations of its debtors' financial condition and do not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, we maintain a provision for doubtful accounts and actual losses incurred have been within management's expectations.

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For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. Our directors of the Company believe that there is no material credit risk inherent in our outstanding balance of other receivables.

For the period ended March 31, 2018

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

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group has large number of customers and there was no concentration of credit risk. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant increases in credit risk on other financial instruments of the same customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the group and changes in the operating results of the customer.

(i) Amounts due from related parties

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

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

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

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

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

(ii) Trade and other receivables

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

As at March 31, 2018, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance provision for other receivables was recognised during the Track Record Period.

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

	<u>Current</u>	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>Over 3 years</u>	<u>Total</u>
March 31, 2018						
Expected loss rate	0.2%	1%	20%	50%	100%	–
Gross carrying amount (RMB'000)	852,646	247,280	8,952	3,921	4,235	1,117,034
Loss allowance provision (RMB'000)	<u>(1,959)</u>	<u>(2,473)</u>	<u>(1,790)</u>	<u>(1,961)</u>	<u>(4,235)</u>	<u>(12,418)</u>

Liquidity Risk

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

DIVIDEND POLICY

We may distribute dividends in the form of cash, shares or a combination of cash and shares. Our board of directors formulates our profit distribution plan based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions on the payment of dividends and other factors that our board deems relevant. All of our Shareholders have equal rights to dividends and other distributions proportionate to their shareholding.

We declared cash dividends of RMB485.0 million, RMB27.5 million and RMB90.2 million for 2015, 2016 and 2017, respectively, all of which were denominated in the U.S. dollar and settled as of March 31, 2018. We declared cash dividend of RMB83.1 million denominated in the U.S. dollar for the three months ended March 31, 2018, which was settled as of April 30, 2018. Our historical dividends may not be indicative of the amount of our future dividends.

We currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 20% of our distributable net profit attributable to our equity shareholders in the future. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

FINANCIAL INFORMATION

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission and fees incurred in connection with the Listing and the Global Offering. Listing expenses to be borne by us are estimated to be approximately RMB58.0 million (assuming an Offer Price of HK\$6.70, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus and that the Over-allotment Option will not be exercised), of which approximately RMB30.0 million is directly attributable to the issue of Shares to the public and to be capitalized, and approximately RMB28.0 million has been or is expected to be reflected in our consolidated statements of profit or loss. Approximately RMB11.8 million of the listing expenses in relation to services already performed has been reflected in our consolidated statements of profit or loss during the Track Record Period, and the remaining amount of approximately RMB16.2 million is expected to be reflected in our consolidated statements of profit or loss subsequent to the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations for 2018.

Expenses relating to the Global Offering, other than roadshow expenses and public relationship costs which are marketing expense in nature and will be expensed off when incurred, are incremental and directly attributable to offering of new shares and should be deducted from equity instead of charged to the consolidated statements of profit or loss.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on March 31, 2018, based on our audited consolidated net assets attributable to the owners of our Company as of March 31, 2018 as shown in the Accountant's Report, the text of which is set forth in Appendix I to this prospectus, and adjusted as follows.

FINANCIAL INFORMATION

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of our net tangible assets had the Global Offering been completed as of March 31, 2018 or at any future date.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at March 31, 2018 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as of March 31, 2018	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>(RMB)</i>	<i>(HK\$)</i>
Based on an Offer Price of HK\$5.89 per Share	1,937,583	648,952	2,586,535	4.07	4.67
Based on an Offer Price of HK\$7.50 per Share	1,937,583	832,486	2,770,069	4.36	5.01

- (1) The audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at March 31, 2018 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as at March 31, 2018 of RMB2,000,543,000 with an adjustment for the intangible assets as at March 31, 2018 of RMB62,960,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$5.89 (equivalent to RMB5.13) and HK\$7.50 (equivalent to RMB6.53) per Share, respectively, after deduction of estimated underwriting fees and other related expenses payable by the Company (excluding listing expenses of approximately RMB11,796,000 which have been accounted for in the Group's consolidated profit or loss prior to March 31, 2018) and takes no accounts of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares.
- (3) The unaudited pro forma net tangible assets per Share are determined after the adjustments as described in the preceding paragraphs above and on the basis that 635,000,000 Shares are in issue (assuming that the Global Offering had been completed on March 31, 2018), without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares.
- (4) In connection with the preparation of this unaudited pro forma statement of adjusted net tangible assets, the translation of Renminbi into Hong Kong dollars has been made at a rate of RMB0.8706 to HK\$1.
- (5) Apart from the adjustments referred to in the preceding paragraphs, no adjustments have been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading result or other transactions of the Group entered into subsequent to March 31, 2018.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position or prospects since March 31, 2018 (being the date of our latest audited financial statements) up to the date of this prospectus and there has been no event since March 31, 2018 up to the date of this prospectus which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business, while our senior management is responsible for the day-to-day management of our business.

The following table sets out certain information in respect of our Directors:

Name	Age	Position/Title	Date of joining our Group	Date of appointment as Director	Roles and responsibilities in our Group	Relationship with other Directors and the senior management
Executive Directors						
CHE Baozhen (車寶臻)	35	Executive Director, chief executive officer	December 5, 2005	May 22, 2015	being responsible for the overall day-to-day operations, management, administration and strategic planning of our Group	Son of Che Hongzhi and cousin of Che Jing
SHI Futao (石富濤)	49	Executive Director, chief financial officer	December 5, 2005	October 28, 2015	being responsible for the overall day-to-day operations and financial management of our Group	N/A
CAO Xueyu (曹雪玉)	48	Executive Director	July 1, 2016	March 5, 2018	being responsible for the overall management, administration and strategic planning of our Group	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Date of joining our Group	Date of appointment as Director	Roles and responsibilities in our Group	Relationship with other Directors and the senior management
Non-executive Directors						
CHE Hongzhi (車宏志)	62	Chairman of our Board and Non-executive Director	December 5, 2005	May 22, 2015	being responsible for providing professional opinion and judgment to our Group and performing the role as the Chairman of our Board	Father of Che Baozhen and uncle of Che Jing
WANG Lei (王雷)	39	Non-executive Director	December 28, 2014	April 20, 2017	being responsible for providing professional opinion and judgment to our Group	N/A
CHEN Yansheng (陳延生)	37	Non-executive Director	October 20, 2015	October 28, 2015	being responsible for providing professional opinion and judgment to our Group	N/A
Independent Non-executive Directors						
ZHANG Xuehuo (張學伙)	55	Independent non-executive Director	September 10, 2018	September 10, 2018	being responsible for providing independent advice and judgment to our Board	N/A
CHOI Tze Kit Sammy (蔡子傑)	55	Independent non-executive Director	September 10, 2018	September 10, 2018	being responsible for providing independent advice and judgment to our Board	N/A
WANG Chuansheng (汪傳生)	58	Independent non-executive Director	September 10, 2018	September 10, 2018	being responsible for providing independent advice and judgment to our Board	N/A

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Che Baozhen (車寶臻先生), aged 35, was appointed as our Director on May 22, 2015. He was also appointed as a member of the Nomination and Remuneration Committee. He has also been the General Manager of one of our subsidiaries Prinx (Shandong) Tire since April 2017. Mr. Che joined our Group in December 2005. He is a director of all of our subsidiaries except Prinx (Qingdao) and Prinx (Europe). Mr. Che is also our chief executive officer. He has over 12 years of experience in automotive tire industry and is responsible for the overall day-to-day operations, management, administration and strategic planning of our Group. As a General Manager of Prinx (Shandong) Tire, Mr. Che is also responsible for the overall management of Prinx (Shandong) Tire. Prior to joining our Group, Mr. Che was a staff in Chengshan Group from December 2003 to May 2010. He was responsible for handling external relations with external parties and asset management. In June 2010, Mr. Che was appointed as the assistant of general manager in Shandong Haizhibao Ocean Technology Company Limited (山東海之寶海洋科技有限公司). In December 2010, Mr. Che was appointed as the chairman of Rongcheng Chengshan Construction Property Limited Company (成山建設置業有限公司).

Mr. Che obtained undergraduate bachelor degree in computer sciences and technology from the University of Science and Technology (北京科技大學) in Beijing, the PRC in July 2003. He further obtained a master degree in business administration from Bond University, Queensland, Australia in October 2015.

Mr. Che is the son of Mr. Che Hongzhi, who is our Chairman of the Board and non-executive Director.

Mr. SHI Futao (石富濤先生), aged 49, was appointed as our Director on October 28, 2015. Mr. Shi joined our Group in December 2005 as a financial director and was promoted to a director in November 2014 and vice-general manager of Prinx (Shandong) Tire in September 2015. He has over 20 years of experience in accounting and financial management in the PRC. Mr. Shi is responsible for the overall financial management of our Group. During the period between February 2003 and February 2004, he was the financial director in Shanghai Waigaoqiao Free Trade Zone Group Company Limited (上海外高橋保稅區開發股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600648 for A-shares and 900912 for B-shares). From May 2004 to April 2007, Mr. Shi was the financial controller of Chengshan Group.

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

DIRECTORS AND SENIOR MANAGEMENT

January 2016, Mr. Shi has been a fellow member of the Chartered Institute of Management Accountants (“CIMA”) in the United Kingdom and a Chartered Global Management Accountant of the American Institute of Certified Public Accountants in the United States, respectively.

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

Ms. Cao Xueyu (曹雪玉女士), aged 48, was appointed as our Director on March 5, 2018. She joined our Group as a director of Prinx Investment on July 1, 2016. Ms. Cao is responsible for the overall management, administration and strategic planning of our Group. Prior to joining our Group, Ms. Cao was a cost accountant and sales accounting supervisor in Nestle Qingdao Limited from June 1994 to January 1997. She was responsible for the internal reportorial documentations relating to sales. In September 2000, she joined the Best Western International Inc., and worked as an accounts clerk in its national office in New Zealand and was promoted to the role of assistant accountant in April 2001 until May 2004. In September 2004, Ms. Cao was the finance manager of Wistar Enterprises Limited. She was responsible for supervising the finance team of the company to provide financial and management accounting support to the subsidiaries of the company.

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

Non-executive Directors

Mr. Che Hongzhi (車宏志先生), aged 62, was appointed as our Director on May 22, 2015. He was re-designated as our non-executive Director on March 5, 2018. He was also appointed as the chairman of the Development Strategy and Risk Management Committee. He is the founder of our Group. Mr. Che is a director of all of our subsidiaries except Prinx (Europe), Prinx Investment and Qingdao Zhianda. He is also the legal representative of two of our subsidiaries in China. Mr. Che is responsible for providing professional opinion and strategic direction to our Group. Since December 2003, he has been the chairman and executive director of Chengshan Group. He has approximately 18 years of experience in tire production industry. Prior to establishing our Group, Mr. Che was the chairman of Shandong Chengshan Tires Company Limited from October 2000 to May 2010.

DIRECTORS AND SENIOR MANAGEMENT

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

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

Mr. WANG Lei (王雷先生), aged 39, has been appointed as our Director since April 20, 2017. He was re-designated as our non-executive Director on March 5, 2018. Mr. Wang has also been a director of Prinx (Shandong) Tire since April 20, 2017. In December 28, 2014, he first joined our Group as a director of Prinx (Shandong) Tire until October 15, 2015. Mr. Wang is responsible for providing professional opinion and judgment to our Group. Prior to joining our Group, he was employed as vice section chief of the reception section of the general manager office by Shandong Chengshan Tires Company Limited (山東成山輪胎股份有限公司) in December 2001. In October 2007, he acted as the deputy head of general office of Chengshan Group; in December 2009, as the head of general office of Chengshan Group; and in March 2014, as the deputy general manager of administrative center in Chengshan Group. In February 2017, he was appointed as the general manager of the administrative centre of Chengshan Group. Mr. Wang was responsible for the administrative management of the company. Mr. Wang is an executive director of Chengshan Group.

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

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

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. ZHANG Xuehuo (張學伙先生), aged 55, was appointed as our independent non-executive Director and the chairman of Nomination and Remuneration Committee, a member of each of the Audit Committee and Development Strategy and Risk Management Committee. Mr. Zhang has been the chairman of China Mineral Ventures Limited (中國礦業投資有限公司) (“**China Mineral Ventures**”) since 1997. He was the founder of China Mineral Ventures. Mr. Zhang founded China Gold Development Group (H.K.) Limited (“**China Gold**”) (中國黃金開發集團(香港)有限公司), a subsidiary of Zijin Mining Group Co., Ltd., the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 2899) in 1999. He was its chairman from 2003 to 2006. Since 2006, Mr. Zhang has been a director of China Gold. Mr. Zhang was the chairman of Guoda Gold Company Limited* (“**Shandong Guoda Gold**”) (山東國大黃金股份有限公司) from 2003 to 2011. Mr. Zhang is currently a director of Shandong Guoda Gold.

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

Mr. CHOI Tze Kit Sammy (蔡子傑先生), aged 55, was appointed as our independent non-executive Director and the chairman of the Audit Committee and a member of the Nomination and Remuneration Committee. Mr. Choi has over 30 years of experience in finance and auditing. Mr. Choi has been the independent non-executive director of Food Wise Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 1632) since July 6, 2018. Mr. Choi was the independent non-executive director of Ernest Borel Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 1856) from October 2016 to August 2017. From January 2007 to November 2015, Mr. Choi was an independent non-executive director of Fufeng Group Limited, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 546) and from February 2016 to February 2017, he was an independent non-executive director of PanAsialum Holdings Company Limited, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 2078).

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

Mr. Choi has been a committee member of Small and Medium Practitioners Committee of the Hong Kong Institute of Certified Public Accountants since 2015 and has been a committee member of Restructuring and Insolvency Facility Executive Committee from 2012 to 2013 and from 2015 to 2018. He has also been the council member of Hong Kong Chiu Chow Merchants Mutual Assistance Society Limited since October 2013. He was a council member of The Society of Chinese Accountants and Auditors from 2010 to 2015. He has been elected as an honorary financial advisor of Hong Kong and Kowloon Rattan Ware Merchants Association (Wing Hing Tong) in 2018.

DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Chuansheng (汪傳生先生), aged 58, was appointed as our independent non-executive Director and a member of each the Audit Committee and Development Strategy and Risk Management Committee. Mr. Wang has been the director of Academic Division of Engineering in Qingdao University of Science & Technology since December 2016. In November 2015, Mr. Wang was appointed as the distinguished expert by Taishan Scholars. Mr. Wang was a teacher of the mechanical faculty in Shandong Institute of Chemical Engineering from July 1982 to September 1984. Mr. Wang has been working at Qingdao University of Science & Technology (previously known as Qingdao Institute of Chemical Technology) (the “**University**”) since September 1984. From September 1984 to November 1984, Mr. Wang was a teacher in chemical machinery faculty at the University. During the period between November 1984 and June 1995, he was the vice office manager of the chemical machinery faculty at the University. From June 1995 to December 1995, he acted as the vice-manager of the mechanical engineering faculty. Mr. Wang was promoted to the position of vice-principal of the machinery engineering faculty in December 1995, In March 2002, he was further promoted to the vice-principal of the mechanical engineering faculty of the University. From April 2004 to December 2016, Mr. Wang was the head of the mechanical engineering faculty of the University before he was promoted to the current position.

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

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

Directors’ interest

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management, Substantial Shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any directorship in any other listed companies in the three years immediately preceding the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, save as disclosed in this section, there was no additional matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to our Directors that is required to be disclosed pursuant to the Listing Rules as of the Latest Practicable Date.

SENIOR MANAGEMENT

The following table sets out certain information in respect of our Senior Management:

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>	<u>Date of joining our Group</u>	<u>Date of appointment as our senior management</u>	<u>Roles and responsibilities in our Group</u>	<u>Relationship with other Directors and the senior management</u>
Senior Management						
Qu Xuexin (曲學新)	56	Vice-General Manager	March 1, 2006	April 21, 2017	being responsible for the overall management of the production centre, equipment productivity centre	N/A
Ju Xunning (鞠訓寧)	52	Vice-General Manager	February 25, 2006	July 19, 2017	being responsible for the overall operation and management of the semi-steel business department of our Group	N/A
Liu Changbo (劉昌波)	53	Research and Development Center General Manager	August 12, 1990	July 19, 2017	being responsible for the development of new products, products improvement, technology management and the formulation of technological standard of our Group	N/A
Liu Weicai (劉維才)	44	Human Resources Center General Manager	November 12, 2017	November 12, 2017	being responsible for the overall human resources work of our Group	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Date of joining our Group	Date of appointment as our senior management	Roles and responsibilities in our Group	Relationship with other Directors and the senior management
Wang Yu (王璵)	45	Commercial Vehicle Tire Replacement Center General Manager	February 15, 2007	July 19, 2017	being responsible for the overall sales of commercial vehicle tire replacement and marketing of our Group	N/A
Chu Xiaohua (初曉華)	34	International Sales Center Vice-General Manager	May 11, 2017	July 19, 2017	being responsible for the overall international sales of our Group	N/A
Che Jing (車晶)	48	Original Equipment Tire Sales Center General Manager	July 19, 2017	July 19, 2017	being responsible for the overall domestic sales of our original equipment products and the development, management and maintenance of sales channels of our Group	Cousin of Che Baozhen and nephew of Che Hongzhi

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

DIRECTORS AND SENIOR MANAGEMENT

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

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

Mr. Ju Xunning (鞠訓寧先生), aged 52, has been our vice-general manager since February 2018. Mr. Ju has also been the general manager of the semi-steel affairs department of Prinx (Chengshan) Tires since July 2017. He joined our Group in March 2006 as the assistant to the quality systems director in Prinx (Shandong) Tire. Mr. Ju was promoted to the position of vice-chief officer of the process improvement department in November 2010. He was appointed as the chief technology officer for all-steel products in January 2012, and in August 2013, he became the production director and continued to hold the office of chief officer of the manufacturing process improvement department. In March 2014, Ju Xunning was promoted to our chief technology officer for semi-steel products. Mr. Ju was further promoted as the chief quality officer in Prinx (Shandong) Tire in December 2016 before he was appointed to the current position, and was appointed as the chief technology officer for semi-steel products of the Group in July 2017. Mr. Ju was responsible for the overall operation and management of the semi-steel business department of our Group. He joined Rongcheng Rubber Factory as a trainee in July 1988, and was promoted to the position of the chief of the phase I engineering formula design department for radial tires in Rongcheng Guotai (榮成國泰) in July 1995. He was the director of division I of the department of technology in November 1997. In January 2004, Mr. Ju acted as the chief engineer of Shandong Chengshan Group Co., Ltd. (山東成山集團有限公司).

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. Liu Changbo (劉昌波先生), aged 53, was appointed as our research and development center general manager in July 2017. Mr. Liu has also been a manager and the general manager of Prinx (Qingdao) and Prinx (R&D) since January 2017 and September 2017, respectively. He is also a director of Prinx (R&D). Mr. Liu served as an intern at Rongcheng Rubber Factory in July 1989, and joined our Group in August 1990 as an assistant engineer. In May 2001, he was promoted to the head of technology center office of Prinx (Shandong) Tire, and in May 2004 he was appointed as the manager of the second technological R&D division of our Group's technology center. Mr. Liu was promoted to our chief semi-steel technology officer in March 2014. He is responsible for the development of our new products, products improvement, our overall technology management and the formulation of technological standard of the Group.

Mr. Liu obtained a bachelor degree in rubber engineering from Qingdao University of Science and Technology (青島化工學院) in July 1989. He has been recognized as a senior engineer by Shandong Province Engineering Technology Position Senior Review Committee (山東省工程技術職務高級評審委員會) since November 2002. In October 1998, Mr. Liu was awarded with the First-class Shandong Province Science and Technology Progress Award – 300,000 sets/year Radial Tire Industrial Production Technology (山東省科學技術進步壹等獎 – 30萬套/年子午線輪胎工業性生產技術) by Shandong Province Science and Technology Progress Award Review Committee (山東省科學技術進步獎評審委員會). He was further awarded with the Second-class National Science and Technology Progress Award – 300,000 sets/year Radial Tire Industrial Production Technology (國家科學技術進步二等獎 – 30萬套/年子午線輪胎工業性生產技術) by the Ministry of Science and Technology of the PRC in December 1999. In November 2006, Mr. Liu obtained a Second-class award of Science and Technology Progress Prize (科技進步二等獎) from PetroChina and Chemistry Industry Association (中國和石油化學工業協會).

DIRECTORS AND SENIOR MANAGEMENT

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

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

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

Mr. Chu Xiaohua (初曉華先生), aged 34, has been our Qingdao international sales center general manager since May 2017 when he first joined our Group. Mr. Chu is responsible for the overall international sales of our Group. Prior to joining our Group, Mr. Chu was a salesman when he first joined Qingdao Crowntyre International Trade Company Limited (青島科昂國際貿易有限公司) in May 2008. Mr. Chu was then promoted to work as a vice-manager of its sales department in January 2013. He was responsible for the business development and maintenance in the markets in Southeast Asia, Oceania and Russia. In May 2013, Mr. Chu was appointed by the company to work in its branch in Singapore as manager. He was responsible for cooperating with the headquarter of the company to manage in its branch in Singapore. In December 2013, he was responsible for the establishment of the company's branch in Dubai. Mr. Chu was a partner of American Tire and Wheel Centers Inc in July 2015. He was responsible for the overall business operations of the company, and coordination of sales, marketing and logistics of the company.

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

DIRECTORS AND SENIOR MANAGEMENT

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

None of the members from our senior management currently holds, or had been a director of any public companies the securities of which are listed on any securities market in Hong Kong or overseas for the three years immediately preceding the Latest Practicable Date.

COMPANY SECRETARY

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

She is currently handling the corporate secretarial work for various Hong Kong listed companies such as China Reinsurance (Group) Corporation (stock code: 1508), New China Life Insurance Company Ltd (stock code: 1336) and L'Occitane International S.A. (stock code: 973).

BOARD COMMITTEES

Audit Committee

Our Company has established an Audit Committee on September 10, 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditors; review the financial statements and render advice in respect of financial reporting as well as oversee internal control procedures of our Group. The Audit Committee consists of three members, namely, Choi Tze Kit Sammy, Wang Chuansheng and Zhang Xuehuo. Choi Tze Kit Sammy is the chairman of the Audit Committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination and Remuneration Committee

Our Company has established a Nomination and Remuneration Committee on September 10, 2018 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination and Remuneration Committee are to make recommendations to the Board on the appointment of our Directors, the management of the Board's succession, the overall remuneration policy and structure relating to all our Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. The Nomination and Remuneration Committee consists of three members, namely, Choi Tze Kit Sammy, Zhang Xuehuo, and Che Baozhen. Zhang Xuehuo is the chairman of the Nomination and Remuneration Committee.

Development Strategy and Risk Management Committee

Our Company has established a Development Strategy and Risk Management Committee on September 10, 2018 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Development Strategy and Risk Management Committee are to conduct researches and submit proposals to the Board concerning the long-term development strategies and material investment decision of our Company, assist the Board in discharging its risk-related responsibilities and to advise it on the overall current and future risk tolerance and development strategy of our Company and arrangements that may impact the risk management of our Company. The Development Strategy and Risk Management Committee consists of three members, namely, Che Hongzhi, Zhang Xuehuo and Wang Chuansheng. Che Hongzhi is the chairman of the Development Strategy and Risk Management Committee.

CORPORATE GOVERNANCE

Our Directors recognize the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Company will comply with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “*comply or explain*” principle in our corporate governance report which will be included in our annual reports upon the Listing.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, housing and other benefits in kind and/or discretionary bonuses. Our Group also reimburses them for expenses which are necessarily and reasonably incurred for providing services or executing their functions in relation to our Group's operations. Our Group regularly reviews and determines the remuneration and compensation packages of our Directors and senior management.

DIRECTORS AND SENIOR MANAGEMENT

After the Listing, the Nomination and Remuneration Committee will review and determine the remuneration and compensation packages of our Directors with reference to their experience, responsibilities, workload and time devoted to our Group and performance of our Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, the remuneration payable by our Group to our Directors, including salaries, housing and other benefits in kind, contributions to defined contribution benefit plans (including pensions) and discretionary bonuses, totalling approximately RMB3.35 million, RMB4.56 million, RMB3.48 million and RMB0.96 million, respectively. Without taking into account the remuneration paid to our Directors, the aggregate remuneration (including salaries, housing and other benefits in kind, contributions to defined contribution benefits plans (including pensions) and discretionary bonus) paid to our five highest paid individuals during the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, were approximately RMB5.08 million, RMB6.08 million, RMB5.08 million and RMB1.60 million, respectively. For further information, please refer to the Accountant's Report set out in Appendix I to this prospectus.

No remuneration was paid to our Directors or the five largest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or is receivable by, our Directors or past Directors of for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

Save as disclosed above, no other payments have been made above, no other payments have been made or are payable by our Company or any of our subsidiaries to our Directors in respect of the services rendered during the Track Record Period.

Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of our Group.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and the benefits in kind receivable by, our Directors (excluding discretionary bonuses) for the year ending December 31, 2018 will be approximately RMB2.73 million.

INTERESTS OF DIRECTORS

Except as disclosed in this prospectus, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no additional matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no additional information relation to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

In accordance with Rule 3A.19 of the Listing Rules, our Company has appointed Messis Capital Limited as our compliance advisor. The terms of the appointment shall commence on the Listing Date and end on the date on which our Group complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date.

Pursuant to Rule 3A.23 of the Listing Rules, we will consult with and, if necessary, seek advice from the compliance advisor in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues or share repurchase;
- where we propose to use the proceeds from the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry with us under Rule 13.10 of the Listing Rules.

SHARE CAPITAL

The authorized and issued share capital of our Company is as follows:

<i>Authorized share capital:</i>		<i>US\$</i>
1,000,000,000	Ordinary Shares in total of US\$0.00005 each	50,000

The issued share capital of our Company immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised) will be as follows:

<i>Issued and to be issued, fully paid or credited as fully paid:</i>		<i>US\$</i>
500,000,000	Ordinary Shares in issue as at the date of this prospectus	25,000
135,000,000	Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option)	6,750
635,000,000	Shares in total	31,750

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following completion of the Global Offering will be as follows:

<i>Issued and to be issued, fully paid or credited as fully paid:</i>		<i>US\$</i>
500,000,000	Ordinary Shares in issue as at the date of this prospectus	25,000
155,250,000	Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is exercised in full)	7,763
655,250,000	Shares in total	32,763

Assumptions

The above tables assume the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued or repurchased by our Company under the general mandate for the allotment and issue or the repurchase of Shares granted to our Directors as referred to below.

SHARE CAPITAL

Ranking

The Offer Shares and the Shares which may be issued pursuant to the Over-allotment Option shall rank pari passu with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of the Listing and at all time thereafter, our Company shall maintain the minimum prescribed percentage of at least 25% of our issued share capital in the hands of the public.

General mandate to issue Shares

Subject to, among others, the Global Offering becoming unconditional, our Directors have been granted with a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering; and
- (b) the aggregate nominal value of share capital of our Company repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below.

The aggregate nominal value of the Shares which our Directors are authorized to allot and issue under this issuing mandate will not be reduced by the allotment and issue of Shares pursuant to (i) rights issue; (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association; or (iii) any specific authority granted by the Shareholders in general meeting(s).

This issuing mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting;
- (b) the expiration of the period within which our Company is required by the applicable Cayman Islands laws or the Articles of Association to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this issuing mandate, please refer to the paragraph headed "Statutory and General Information – A. Further Information about our Company – 5. Written resolutions of our Shareholders passed on September 10, 2018" in Appendix IV to this prospectus.

SHARE CAPITAL

General mandate to repurchase Shares

Subject to, among others, the Global Offering becoming unconditional, our Directors have been granted with a general unconditional mandate to exercise all powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering.

This repurchase mandate only relates to repurchases made on the Hong Kong Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose) and which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Hong Kong Stock Exchange to be included in this prospectus regarding the repurchase of Shares by our Company, please refer to the paragraph headed “Statutory and General Information – Further Information about our Company – 6. Repurchase of Shares” in Appendix IV to this prospectus.

This repurchase mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company is required by the applicable Cayman Islands laws or the Articles of Association to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this repurchase mandate, please refer to the paragraph headed “Statutory and General Information – A. Further Information about our Company – 5. Written resolutions of our Shareholders passed on September 10, 2018” in Appendix IV to this prospectus.

Circumstances Under Which General Meeting And Class Meeting Are Required

Pursuant to the Companies Law and the terms of our Memorandum of Association and our Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital by special resolution of shareholders. For details, please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Laws” in Appendix III to this prospectus.

SHARE CAPITAL

Pursuant to the Companies Law and the terms of our Memorandum of Association and our Articles of Association, all or any of the special rights attached to our Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares in that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares in that class. For further details, please refer to the section headed “Summary of the Constitution of the Company and Cayman Islands Company Laws” in Appendix III to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, each of the following persons will, immediately after completion of the Global Offering (without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, are directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our Company's subsidiaries:

<u>Name of Shareholder</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares held</u>	<u>Approximate shareholding percentage in the total issued share capital of our Company and the Global Offering</u> (%)
Chengshan Group	Beneficial owner (<i>Note 1</i>)	436,600,000	68.76
Che Baozhen	Interest in a controlled corporation/spouse interest (<i>Notes 2 and 10</i>)	436,600,000	68.76
Bi Wenjing	Interest in a controlled corporation/spouse interest (<i>Notes 3 and 10</i>)	436,600,000	68.76
Che Hongzhi	Interest in controlled corporation/spouse interest (<i>Notes 4 and 10</i>)	436,600,000	68.76
Li Xiuxiang	Interest in controlled corporation/spouse interest (<i>Notes 5 and 10</i>)	436,600,000	68.76
Beijing Baichuantong	Interest in controlled corporation (<i>Notes 6 and 11</i>)	436,600,000	68.76
Beijing Zhongmingxin	Interest in controlled corporation (<i>Notes 7 and 11</i>)	436,600,000	68.76
Rongcheng Chengda	Interest in controlled corporation (<i>Notes 8 and 11</i>)	436,600,000	68.76
Rongcheng Chengshan Food	Interest in controlled corporation (<i>Notes 9 and 11</i>)	436,600,000	68.76
Rongcheng Chenghai	Interest in controlled corporation (<i>Notes 8 and 11</i>)	436,600,000	68.76
Rongcheng Chengyuan	Interest in controlled corporation (<i>Notes 8 and 11</i>)	436,600,000	68.76
Rongcheng Dongsheng	Interest in controlled corporation (<i>Notes 8 and 11</i>)	436,600,000	68.76
Rongcheng Haocheng	Interest in controlled corporation (<i>Notes 7 and 11</i>)	436,600,000	68.76

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate shareholding percentage in the total issued share capital of our Company and the Global Offering (%)
Rongcheng Hongsheng	Interest in controlled corporation (Notes 8 and 11)	436,600,000	68.76
Rongcheng Pucheng	Interest in controlled corporation (Notes 7 and 11)	436,600,000	68.76
Sinotruk Capital	Beneficial owner (Note 11)	63,400,000	9.98
Sinotruk International	Interest in a controlled corporation (Note 11)	63,400,000	9.98
Sinotruk (Hong Kong) Limited	Interest in a controlled corporation (Note 11)	63,400,000	9.98
Sinotruk (BVI) Limited	Interest in a controlled corporation (Note 12)	63,400,000	9.98
Wang Lei	Interest in controlled corporation (Note 13)	35,284,300	5.56
Zhang Zhiqian	Spouse interest (Note 14)	35,284,300	5.56
Shi Futao	Interest in controlled corporation (Note 15)	32,416,200	5.10
Chen Ling	Spouse interest (Note 16)	32,416,200	5.10

Notes:

- (1) Chengshan Group is our Controlling Shareholder.
- (2) Che Baozhen wholly owns Rongcheng Dongsheng, which in turns owns 6.45% of the equity interest in Chengshan Group. As such, Che Baozhen is deemed to be interested in Rongcheng Dongsheng's interests in Chengshan Group by virtue of the SFO.

Che Baozhen directly owns 50% of the equity interest in Beijing Baichuantong, which in turns owns 95% of the equity interest in Beijing Zhongmingxin, which in turns owns 25.83% of the equity interest in Chengshan Group. As such, Che Baozhen is deemed to be interested in Beijing Zhongmingxin's interests in Chengshan Group by virtue of the SFO.

Che Baozhen is deemed to be interested in Beijing Zhongmingxin's interests by virtue of the SFO. Beijing Zhongmingxin is the general partner of each of Rongcheng Pucheng and Rongcheng Haocheng. Each of Rongcheng Pucheng and Rongcheng Haocheng owns 10.22% and 6.45% of the equity interest in Chengshan Group, respectively. As such, Che Baozhen is deemed to be interested in Beijing Zhongmingxin's interests in each of Rongcheng Pucheng and Rongcheng Haocheng's interests in Chengshan Group by virtue of the SFO, respectively.

Che Baozhen wholly owns Rongcheng Dongsheng, which is the general partner of each of Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda and Rongcheng Chenghai. Each of Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda and Rongcheng Chenghai directly owns 6.45%, 5.37%, 4.08% and 3.98% of the equity interest in Chengshan Group, respectively. As such, Che Baozhen is deemed to be interested in each of Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Chengda and Rongcheng Chenghai's interests in Chengshan Group by virtue of the SFO, respectively.

Che Baozhen is the spouse of Bi Wenjing. As such, he is deemed to be interested in all the Shares in which Bi Wenjing is interested in under the SFO.

SUBSTANTIAL SHAREHOLDERS

- (3) Bi Wenjing wholly owns Rongcheng Chengshan Food, which in turns owns 0.94% of the equity interest in Chengshan Group. As such, Bi Wenjing is deemed to be interested in Rongcheng Chengshan Food's interests in Chengshan Group by virtue of the SFO.

Bi Wenjing is the spouse of Che Baozhen. As such, she is deemed to be interested in all the Shares in which Che Baozhen is interested in under the SFO.

- (4) Che Hongzhi directly owns 6.99% of the equity interest in Chengshan Group.

Che Hongzhi is the spouse of Li Xiuxiang. As such, he is deemed to be interested in all the Shares which Li Xiuxiang is interested in under the SFO.

- (5) Li Xiuxiang directly owns 50% of the equity interest in Beijing Baichuantong, which in turns owns 95% of the equity interest in Beijing Zhongmingxin, which in turns owns 25.83% of the equity interest in Chengshan Group. As such, Li Xiuxiang is deemed to be interested in Beijing Zhongmingxin's interests in Chengshan Group by virtue of the SFO.

Li Xiuxiang is deemed to be interested in Beijing Zhongmingxin's interests by virtue of the SFO. Beijing Zhongmingxin is the general partner of each of Rongcheng Pucheng and Rongcheng Haocheng. Each of Rongcheng Pucheng and Rongcheng Haocheng owns 10.22% and 6.45% of the equity interest in Chengshan Group, respectively. As such, Li Xiuxiang is deemed to be interested in Beijing Zhongmingxin's interests in each of Rongcheng Pucheng and Rongcheng Haocheng's interests in Chengshan Group by virtue of the SFO.

Li Xiuxiang is the spouse of Che Hongzhi. As such, she is deemed to be interested in all the Shares which Che Hongzhi is interested under the SFO.

- (6) Beijing Baichuantong is owned as to 50% by Che Baozhen and 50% by Li Xiuxiang, respectively. It directly owns 95% of the equity interest in Beijing Zhongmingxin. As such, Beijing Baichuantong is deemed to be interested in Beijing Zhongmingxin's interests in Chengshan Group by virtue of the SFO.

- (7) Beijing Zhongmingxin is owned as to 95% by Beijing Baichuantong, which in turns owned as to 50% by Che Baozhen and 50% by Li Xiuxiang, respectively. It directly owns 25.83% of the equity interest in Chengshan Group.

Beijing Zhongmingxin is the general partner of each of Rongcheng Haocheng and Rongcheng Pucheng. Each of Rongcheng Haocheng and Rongcheng Pucheng directly owns 6.45% and 10.22% of the equity interest in Chengshan Group, respectively. As such, Beijing Zhongmingxin is deemed to be interested in each of Rongcheng Haocheng and Rongcheng Pucheng's interests in Chengshan Group by virtue of the SFO.

- (8) Rongcheng Dongsheng wholly owns 6.45% of the equity interest in Chengshan Group and is wholly owned by Che Baozhen.

Rongcheng Dongsheng is the general partner of each of Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Hongsheng and Rongcheng Chengyuan. Each of Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Hongsheng and Rongcheng Chenyuan directly owns 4.08%, 3.98%, 5.37% and 6.45% of the equity interest in Chengshan Group, respectively. As such, Rongcheng Dongsheng is deemed to be interested in each of Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Hongsheng and Rongcheng Chengyuan's interests in Chengshan Group by virtue of the SFO.

- (9) Rongcheng Chengshan Food wholly owns 0.94% of the equity interest in Chengshan Group and is wholly owned by Bi Wenjing.

- (10) The Che Family and the Controlled Entities are a group of Controlling Shareholders within the meaning of the Listing Rules. They control an aggregate of 76.76% of the equity interest in Chengshan Group. Upon completion of the Global Offering, the Che Family and the Controlled Entities, through Chengshan Group, controls an aggregate of 68.76% of the issued share capital of our Company.

- (11) Sinotruk Capital is wholly owned by Sinotruk International. Sinotruk International is wholly owned by Sinotruk (Hong Kong) Limited. By virtue of the SFO, Sinotruk International and Sinotruk (Hong Kong) Limited are deemed to be interested in all the Shares in which Sinotruk Capital is interested in.

SUBSTANTIAL SHAREHOLDERS

(12) Sinotruk (BVI) Limited owns 51% of the issued share capital of Sinotruk (Hong Kong) Limited. By virtue of the SFO, Sinotruk (BVI) Limited is deemed to be interested in all the Shares in which Sinotruk (Hong Kong) Limited is interested, and in turn Sinotruk (BVI) Limited is deemed to be interested in all the Shares in which Sinotruk Capital is interested by virtue of the SFO.

(13) Wang Lei directly owns 5.02% of the equity interest in Chengshan Group.

Wang Lei wholly owns Rongcheng Leixiang, which is the general partner of Rongcheng Chenghong. Rongcheng Chenghong directly owns 3.06% of the equity interest in Chengshan Group. As such, Wang Lei is deemed to be interested in Rongcheng Chenghong's interests in Chengshan Group by virtue of the SFO.

(14) Zhang Zhiqian is the spouse of Wang Lei. As such, she is deemed to be interested in all the Shares which Wang Lei is interested in under the SFO.

(15) Shi Futao wholly owns Rongcheng Fucheng, which in turns owns 0.81% of the equity interest in Chengshan Group. As such, Shi Futao is deemed to be interested in Rongcheng Fucheng's interests in Chengshan Group by virtue of the SFO.

Rongcheng Fucheng is the general partner of Rongcheng Chengzhan. Rongcheng Chengzhan directly owns 6.61% of the equity interest in Chengshan Group. As such, Shi Futao is deemed to be interested in Rongcheng Chengzhan's interests in Chengshan Group by virtue of the SFO.

(16) Chen Ling is the spouse of Shi Futao. As such, she is deemed to be interested in all the shares which Shi Futao is interested in under the SFO.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), have an interest or a short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our Company's subsidiaries.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Chengshan Group controlled 87.32% of our issued Shares. The Che Family, and the Controlled Entities, are collectively deemed to be interested in 76.76% of the equity interest in Chengshan Group as a group of Controlling Shareholders through their direct interests and Che Baozhen, had deemed interests in our Company through each of Beijing Baichuantong, Beijing Zhongmingxin, Rongcheng Dongsheng, Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Pucheng and Rongcheng Haocheng, and his spouse, Bi Wenjing, had deemed interests in our Company through Rongcheng Chengshan Food, and Che Hongzhi, father of Che Baozhen, had direct interest in our Company, and his spouse, Li Xiuxiang, had deemed interests in our Company through Beijing Baichuantong, Beijing Zhongmingxin, Rongcheng Pucheng and Rongcheng Haocheng. Beijing Baichuantong had deemed interests in our Company through Beijing Zhongmingxin and Beijing Zhongmingxin had both direct interest and deemed interests in our Company through Rongcheng Haocheng and Rongcheng Pucheng. Rongcheng Dongsheng had both direct interest and deemed interests in our Company through Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Hongsheng and Rongcheng Chengyuan. Rongcheng Chengshan Food had direct interests in our Company. Immediately following completion of the Global Offering (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), Chengshan Group will directly hold 68.76% of the entire issued share capital in our Company and remain as our Controlling Shareholder under the Listing Rules. The Che Family and the Controlled Entities, who had deemed interests in Chengshan Group, will collectively have interests in 68.76% of the entire issued share capital in our Company, as our group of Controlling Shareholders. Chengshan Group, the Che Family and the Controlled Entities will be our Controlling Shareholders upon Listing as defined under the Listing Rules.

Since the inception of our Company, Che Baozhen, as an executive Director, has taken an active role in the day-to-day management of our Company, while his spouse, Bi Wenjing, has no active role in our Company. Che Hongzhi, as our non-executive Director, has taken a non-executive role in our Company, while his spouse, Li Xiuxiang has no active role in our Company.

INFORMATION OF OTHER BUSINESSES OF OUR CONTROLLING SHAREHOLDERS

Chengshan Group is a limited liability company established in the PRC on January 8, 1976. As at the Latest Practicable Date, other than the overseas production base to be established in Malaysia (“**Retained Business**”, details of which are set out below), Chengshan Group (excluding our Group) was also interested in other businesses which will not be included in our Group upon the Listing. These businesses mainly include (a) ocean food development, mariculture and hotel and tourism business operations; (b) real estate development; (c) property management; (d) property rental services; (e) external investment and provision of related consulting services; (f) provision of achievement transfer and information consulting services; (g) import and export business; and (h) provision of financial services (the “**Other Businesses**”).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Beijing Baichuantong is a limited liability company established in the PRC on January 18, 2010 and its principal businesses include provision of (i) economic and trade advisory services, and (ii) investment consultancy services.

Beijing Zhongmingxin is a limited liability company established in the PRC on November 15, 2007 and its principal business is investment and asset management.

Rongcheng Dongsheng is a limited liability company established in the PRC on December 16, 2015 and its principal businesses include (i) property leasing and (ii) land leasing.

Rongcheng Chengshan Food is a limited liability company established in the PRC on September 3, 2003 and its principal businesses include (i) mariculture and ocean food development, and (ii) provision of scientific research achievement transfer and information consulting services.

Each of Rongcheng Chengda, Rongcheng Chenghai, Rongcheng Chengyuan, Rongcheng Hongsheng, Rongcheng Pucheng and Rongcheng Haocheng is a limited partnership registered in the PRC on July 25, 2016. They are investment holding companies.

The Other Businesses (excluding the Retained Business) of Chengshan Group and the businesses of each of the Controlled Entities are in entirely different industry sectors from that of our Group, our Directors are of the view that the businesses that our Controlling Shareholders and our Directors are interested in, apart from the business of our Group, do not compete with the business of our Group.

RETAINED BUSINESS

Apart from the business currently carried out by our Group, our Controlling Shareholder, Chengshan Group, has interests in the Retained Business through Chengshan (Malaysia), a limited liability company established in Malaysia on January 25, 2017. To the best knowledge of the Directors, Chengshan (Malaysia) intends to acquire certain parcels of land at Malaysia-China Kuantan Industrial Park, Kuantan, Malaysia to construct tire production facilities for All Steel Radial Tires and Semi-Steel Radial Tires (the “**Malaysia Production Base**”). As at the Latest Practicable Date, to the best knowledge of the Directors, the establishment of the Malaysia Production Base remains at a relatively early stage of the preparatory phase and the legal title to the parcels of land on which the Malaysia Production Base is planned to be constructed have not yet been obtained. The Retained Business was therefore excluded from our Group. As advised by Ben & Partners, our Malaysian legal advisors as to the Listing, based on the information available as at the Latest Practicable Date, the time for Chengshan (Malaysia) to obtain the legal title to the parcels of land for the Malaysia Production Base is uncertain and is expected to be in 2019.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Given that our Directors believe that (i) the legal title to the parcels of land is fundamental and crucial in relation to the legal operation of the Retained Business; (ii) there is no certainty that such legal title can be obtained before the Listing; (iii) there is no concrete development and construction of the Malaysia Production Base as at the Latest Practicable Date; and (iv) the Directors are unable to guarantee that there will be no further legal impediments to the operation of the Malaysia Production Base, the Directors are of the view that it is inappropriate to include the Retained Business in the Group before the Listing.

Our Directors are aware that after the legal title to the parcels of land is obtained and construction of the Malaysia Production Base is completed, the operation of the Retained Business may constitute direct competition with the Group. In order to protect the interest of the Group, the Group has entered into the Deed of Non-competition pursuant to which (i) the Group was given a call option, exercisable at the sole discretion of our Company, and a right of first refusal to acquire the equity interests in Chengshan (Malaysia); and (ii) where operation of the Retained Business has commenced but prior to the acquisition of the equity interests in Chengshan (Malaysia) by the Group, our Controlling Shareholders have undertaken to procure Chengshan (Malaysia) to appoint the Group as its sole and exclusive distributor. It is currently expected that the pricing policy for the tires manufactured at the Malaysia Production Base to be sold by Chengshan (Malaysia) to the Group will be based on cost. The entering into of such exclusive distribution agreement between Chengshan (Malaysia) and the Group will constitute continuing connected transactions, after Listing and will be subject to the rules and regulations under the Listing Rules, including requirements relating to announcement, reporting and independent shareholders' approval, if required. As advised by Ben & Partners, our legal advisors as to Malaysia law, they are not aware of any material non-compliances by Chengshan (Malaysia) during the Track Record Period.

We entered into the Entrusted Management Agreement with Chengshan (Malaysia) on September 10, 2018. Further details of the Entrusted Management Agreement are set out in the section headed "Continuing Connected Transactions – Entrusted Management Agreement" in this prospectus.

DEED OF NON-COMPETITION

Our Controlling Shareholders, namely Chengshan Group, the Che Family and the Controlled Entities, entered into the Deed of Non-competition in favour of our Company (for itself and on behalf of all members of our Group) on September 10, 2018 pursuant to which each of our Controlling Shareholders, irrevocably and unconditionally, has undertaken to and covenanted with our Group that, save and except as disclosed in this prospectus, he/she/it will not, and would procure that his/her/its close associates (except any members of the Group) would not, during the Restricted Period (as defined below), directly or indirectly, either on his/her/its own or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or hold interests in or engage in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise), any business which is in competition with or likely to be in competition with our business of tire manufacturing and sale of tires business in the PRC and overseas (the "**Restricted Business**"). Such non-competition

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

undertaking shall not restrict each of our Controlling Shareholders (or any of their respective affiliates (as defined in the Deed of Non-competition) other than the Group), either by itself or through any other person, from:

- (a) holding interests in the shares of a company which is listed on a recognized stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of shares held by any of our Controlling Shareholders and/or their respective close associates in aggregate does not exceed 5% of the issued shares of the company in question and our Controlling Shareholders and/or their respective associates are not entitled to appoint a majority of the directors of that company and/or at any time, there should exist another shareholder of the company;
- (b) directly or indirectly holding the interests in Chengshan (Malaysia) (i.e. the Retained Business).

The obligations of our Controlling Shareholders under the Deed of Non-competition will cease (i) upon the cessation of listing of the Shares on the Hong Kong Stock Exchange (except suspension of listing of the Shares pursuant to the Listing Rules); or (ii) regarding each of our Controlling Shareholders, when he/she/it (or his/her/its associates) ceases to hold any equity interest, whether directly or indirectly, in the Group; or (iii) when our Controlling Shareholders become jointly entitled to exercise or control the exercise of less than 30% (or such other percentage of shareholdings as stipulated in the Listing Rules to constitute a controlling shareholder) of the voting power at general meetings of the Company.

The undertakings contained in the Deed of Non-competition are conditional upon, among other things, the Hong Kong Stock Exchange granting approval for the listing of and permission to deal in our Shares.

Our Controlling Shareholders have granted to our Company a call option, exercisable at the sole discretion of our Company, under which the Company has the right, but not an obligation, to acquire, their interests in the Retained Business subject to the terms of the Deed of Non-competition based on independent valuation to be determined by recognized valuer appointed by our Company. The call option for our Company to acquire the equity interests in the Retained Business shall be exercisable by our Company when our Directors, including all the independent non-executive Directors, decide that, for the future development of our Group, it is in the best interest of our Company to exercise the option.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The Directors are of the view that, when Chengshan (Malaysia) does not face any legal impediment in obtaining the legal title to the parcels of land on which the Malaysia Production Base is located and there is no legal impediment to the operation of the Malaysia Production Base, our Company shall consider whether or not to exercise the option under the Deed of Non-competition to acquire the Retained Business, subject to the approval of the independent non-executive Directors and the independent Shareholders, if applicable. In the event our Company decides to exercise the option, it may consider financing the acquisition by internal resources, issuing Shares and/or banking facilities. Should our Company decide to issue Shares to finance the acquisition of the Retained Business, the shareholdings in our Company will be diluted and should our Company decide to finance such acquisition by way of bank loans, the gearing ratio of our Company will increase.

Our Controlling Shareholders have also granted to our Company the right of first refusal in the situation where Chengshan Group wishes to sell the whole or any part of its interests in Chengshan (Malaysia) to any third party. Any decision on whether to exercise such option or right of first refusal will be made by our independent non-executive Directors. In the event that our Company decides to exercise or not to exercise such option or right of first refusal, our Company will, where necessary, disclose such decision in announcements setting out the details as required under the Listing Rules. Our Controlling Shareholders have also undertaken to provide relevant information concerning the Retained Business from time to time so as to allow the independent non-executive Directors to make an assessment as to whether the option to acquire any part of the Retained Business should be exercised. The independent non-executive Directors will also review, on an annual basis, the exercise or non-exercise of the option and right of first refusal under the Deed of Non-competition and state their views in the annual reports of our Company as to whether the non-competition undertakings have been complied with.

Each of our Controlling Shareholders has undertaken that if he/she/it, or his/her/its affiliates other than our Group, is offered or becomes aware of any investment or business opportunity which is in competition, directly or indirectly, or may lead to direct or indirect competition, with our Group in connection with the Restricted Business (the “**Business Opportunity**”), he/she/it will and shall direct or procure that his/her/its affiliates will notify us of such Business Opportunity and procure that the Business Opportunity is first offered to our Group on terms and conditions no less favourable than those offered to our Controlling Shareholders or their affiliates. If our Group declines any such offer (which is subject to the approval of the independent non-executive Directors), the Controlling Shareholder who is offered the Business Opportunity shall then be allowed to acquire the interests offered on terms no more favourable than those offered to our Group. Save for any Business Opportunity obtained through such arrangement, each of our Controlling Shareholders undertakes that he/she/it will not engage in any Restricted Business other than the Retained Business. Each of our Controlling Shareholders undertakes to (a) offer any interests so acquired to our Group for management at a fair market value to be determined by the parties, and (b) offer our Group an option to acquire such interests at a fair market value to be agreed by the parties. The exercise of such option will constitute a connected transaction following the Listing and will be subject to the approval of the independent non-executive Directors and the requirements relating to announcement, reporting and independent shareholders’ approval, if required.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associates after the Global Offering.

Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. Our Board's main functions include the approval of the overall business plans and strategies of our Group, monitoring the implementation of these policies and strategies and the management of our Company. Our independent management team, which is led by a team of senior management with substantial experience and expertise in our business, is responsible for the implementation of our Group's policies and strategies. Our Directors consider that our Board and senior management will function independently from our Controlling Shareholders because:

(a) Board Structure

Our Board comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors.

The following table sets forth the current overlapping directorship and management positions in our Controlling Shareholders held by our Directors:

<u>Our Directors</u>	<u>Chengshan Group</u>	<u>Beijing Baichuantong</u>	<u>Rongcheng Dongsheng</u>	<u>Other companies controlled by the Che Family</u>
Che Hongzhi	✓			N/A
Che Baozhen		✓	✓	N/A
Wang Lei	✓			N/A

Notwithstanding the fact that the above Directors are directors of our Controlling Shareholders, our Directors are of the view that our Board and our senior management are capable of operating our business and managing all actual or potential conflicts of interest independently of our Controlling Shareholders for the following reasons:

1. save and except for the Retained Business, our Controlling Shareholders do not operate any business that competes or potentially competes, directly or indirectly, with the business of our Group;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

2. save and except for Beijing Baichuantong and Rongcheng Dongsheng, none of our executive Directors is involved in the day-to-day management of our Controlling Shareholders or its respective subsidiaries as the business nature of Beijing Baichuantong and Rongcheng Dongsheng is different from our Group's businesses, the overlapping directorship in Beijing Baichuantong and Rongcheng Dongsheng does not affect Che Baozhen's involvement in the day-to-day management of our Group;
3. in the event of conflict of interest, our Directors are required under the Articles to recuse themselves from voting;
4. our Directors have fiduciary duties towards our Company and are required to act in the best interests of our Company and the Shareholders as a whole;
5. connected transactions between the Controlling Shareholders and the Group are subject to the rules and regulations under the Listing Rules, including rules relating to announcement, reporting and independent shareholders' approval;
6. all of our independent non-executive Directors are independent of our Controlling Shareholders and are professional parties having extensive experience in their respective areas of expertise. For further details, please refer to the section headed "Directors and Senior Management" in this prospectus.

(b) Directors' duties

Each of our Directors is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interest of our Company and our Shareholders as a whole and does not allow any conflict between his/her duties as a director and his/her personal interests.

In the event that any Director or any of his/her close associates has a material interest in any transaction or arrangement or there is an actual or potential conflict of interest arising out of any proposed transaction or arrangement to be entered into between our Group and any of our Directors or their respective associates, or due to the dual positions of our Director(s) acting as director of our Company and another company involved in the proposed transaction or arrangement, pursuant to the relevant provisions of the Articles, our Director(s) shall fully disclose such matters to the Board.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

(c) Corporate governance measures

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. Our Company has adopted the following corporate governance measures to identify and manage potential conflicts of interests:

- i. the Articles of our Company do not impose any restriction on our Directors or Shareholders to vote on any proposed resolution. However, where our Company has knowledge that any Director or Shareholder, under the Listing Rules, is required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such Director or Shareholder in contravention of such requirement or restriction shall not be counted;
- ii. our independent non-executive Directors are independent from our Controlling Shareholders and are appointed in accordance with the requirements under the Listing Rules to ensure that decisions of the Board are made only after due consideration of independent and impartial opinions;
- iii. our Controlling Shareholders will undertake to provide all necessary information relating to the Restricted Business, including all relevant financial, operation and market information and any other necessary information required by the independent non-executive Directors for review;
- iv. our Controlling Shareholders have undertaken to make an annual confirmation as to compliance with its undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;
- v. we will disclose decisions on matters reviewed by our independent non-executive Directors and basis of such decisions, either in our annual reports or by way of announcements as required by the Listing Rules;
- vi. we have established internal control mechanisms to identify connected transactions. Upon the Listing, if the Group enters into connected transactions with our Controlling Shareholders or any of its associates, the Group will comply with the applicable Listing Rules;
- vii. in order to allow non-conflicting members of the Board to function properly with necessary professional advice, we will engage third-party professional advisor(s) to advise our Board when necessary; and
- viii. we have appointed Messis Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between us and our Controlling Shareholders and to protect our Shareholders' interests after the Listing.

(d) Separate management team

Our Group has our own management team and separate functional departments including accounting, administration, human resources and legal departments. All essential administration and daily operations of our Group are carried out by a team of staff employed by our Group independently of and without any support from our Controlling Shareholders. In addition, save as disclosed above, none of our senior management holds any office in or is employed by Chengshan Group.

Our daily management and operations are carried out by our senior management team, all of whom have substantial experience in the industry that we are engaged in and have served our Group for a period of time, during which they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders. For further details, please refer to the section headed "Directors and Senior Management" in this prospectus.

On the basis of the aforesaid, our Directors believe that we operate independently of our Controlling Shareholders and in the interests of our Shareholders.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. We have independent internal control and accounting system to support our daily operations. We also have an independent finance department responsible for discharging the treasury function. Our business has been primarily funded by our operating cash-flow. We believe that we are capable of obtaining financing from third parties without reliance on our Controlling Shareholders upon Listing.

There are no outstanding loans or guarantees directly or indirectly provided by, or granted to, our Controlling Shareholders or its respective associates as of the Latest Practicable Date.

Based on the above, our Directors are of the view that our Directors and senior management are capable of carrying out our business independently of, and do not place undue reliance on, our Controlling Shareholders after the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational independence

Our Group has established its own organizational structure made of individual departments, each with specific areas of responsibilities. We have established our own business development, sales and marketing, finance, technology, human resources, legal and other administrative functions which operate separately and independently from our Controlling Shareholders. Our Group holds all relevant licenses and owns all relevant intellectual properties and production and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We have also adopted a set of internal control procedures to maintain effective and independent operation of our business. We have a clear business delineation with our Controlling Shareholders.

Our Group has independent access to our customers and suppliers and an independent management team to operate our business. To the best knowledge of our Directors, none of our suppliers are connected persons as defined under the Listing Rules.

Our Group has entered into continuing connected transactions with our Controlling Shareholders. For details, please refer to the section headed “Continuing Connected Transactions” in this prospectus. The property lease agreement, property services agreement, the entrusted management agreement, the energy-saving framework agreement and trademark licence agreement are on normal commercial terms after arm’s length negotiations in the ordinary course of our business. Our Directors believe that if Chengshan Group and/or its subsidiaries terminate these agreements, the interruption to our business would not have material financial impact on our operating and financial status and we would have no difficulties in finding new premises and new property services provider.

Save as disclosed above, our Directors believe that we are able to operate independently of our Controlling Shareholders and his/her/its respective close associates.

CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

We have entered into certain transactions with our connected persons (as defined under Chapter 14A of the Listing Rules), the details of which are set out in this section below. The transactions disclosed in this section will continue to be effective upon the Listing, and hence, upon the Listing, such transactions entered into with such connected persons will each constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules. The Directors believe that these transactions are conducted in the ordinary and usual course of the Company's business and are on normal commercial terms.

RELEVANT CONNECTED PERSONS

The following table sets out the connected persons of our Company who conduct or will continue to conduct connected transactions with our Group upon the Listing and the nature of their connection with our Company:

<u>Name</u>	<u>Connected relationship</u>
1. Chengshan Group	Chengshan Group is our Controlling Shareholder
2. Rongcheng Chengshan Energy-Saving Services	Rongcheng Chengshan Energy-Saving Services is a wholly-owned subsidiary of Chengshan Group, our Controlling Shareholder
3. Rongcheng Chengshan Properties	Rongcheng Chengshan Properties is wholly-owned by Chengshan Group, our Controlling Shareholder
4. Chengshan (Malaysia)	Chengshan (Malaysia) will become a wholly-owned subsidiary of Chengshan Group, our Controlling Shareholder upon the Listing

FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

1. Utility sharing services

On January 1, 2018, Prinx (Shandong) Tire entered into a utility charge agreement with Chengshan Group (“**Utility Charge Agreement**”) pursuant to which Prinx (Shandong) Tire shares its electricity supply with Chengshan Group and in return, Prinx (Shandong) Tire shall pay for such electricity at cost to Chengshan Group from January 1, 2018 to December 31, 2020. Chengshan Group had negotiated a discount on the standard electricity rate with the electricity provider. By entering into the Utility Charge Agreement, our Group will be able to benefit from the discounted rate, which during the Track Record Period was approximately 10% lower than the standard electricity rate. As a result, the operating costs of our Group will be lowered. The amount that Prinx (Shandong) Tire pays to Chengshan Group for the sharing and usage of electricity is based on the costs of the electricity charges actually incurred by Prinx (Shandong) Tire plus taxes in accordance with the price guidance issued by Rongcheng Power Supply Bureau. Our Group has independent access to electricity.

CONTINUING CONNECTED TRANSACTIONS

As the transactions contemplated under the Utility Charge Agreement constitute sharing of administrative services on a cost basis, and the costs are identifiable and can be allocated to the parties on a fair and equitable basis. Accordingly, such transactions constitute fully exempt continuing connected transactions pursuant to Rule 14A.98 of the Listing Rules.

2. Trademark licence

We intend to use the “EASTSTART” and “ **PRINX TIRES** ” marks (the “**Trademarks**”) registered or applied to be registered in the PRC by Chengshan Group for our business operations. In anticipation of the Listing, we entered into a trademark licence agreement with Chengshan Group on March 21, 2018 (the “**Trademark Licence Agreement**”). Pursuant to the Trademark Licence Agreement, Chengshan Group granted to our Group the right to use the Trademarks in relation to the business of our Group in the PRC and overseas at nil consideration for a term from the date of the Trademark Licensing Agreement to the date of completion of the transfer of the Trademarks to our Group.

For more information about the Trademarks, please refer to “Appendix IV – Statutory and General Information – B. Further Information about our business – 2. Intellectual property rights of our Group – (a) Trademarks” in this prospectus.

As nil consideration is payable, the transaction under the Trademark Licence Agreement falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and this transaction will be exempt from the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

3. Entrusted Management Agreement

Chengshan (Malaysia) is a wholly-owned subsidiary of Chengshan Group. Chengshan (Malaysia) intends to construct a tire production facilities in Malaysia which, if in full operation, will compete with the business of the Group. Chengshan Group has granted a call option and right of first refusal to the Company to acquire all or part of the equity interest in Chengshan (Malaysia) pursuant to the Deed of Non-competition. For details, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus.

In order to ensure our Group will have sufficient level of control and understanding over the affairs of the production base in Malaysia as well as to place our Group in a better position to monitor the construction progress of the production base and its operation and management during the operation stage, Chengshan (Malaysia) and Prinx (Shandong) Tire has entered into an entrusted management agreement on September 10, 2018 (the “**Entrusted Management Agreement**”), pursuant to which Chengshan (Malaysia) entrusted to Prinx (Shandong) Tire to provide certain services (the “**Entrusted Management Services**”) and the principal terms are set out below:

- Parties:
- (a) Prinx (Shandong) Tire (as services provider); and
 - (b) Chengshan (Malaysia) (as services recipient)

CONTINUING CONNECTED TRANSACTIONS

- Nature of transaction:** The provision of services including, but not limited to, (i) exercising rights in relation to the construction, management and operation of Chengshan (Malaysia); and (ii) the high-level supervision of the operation of Chengshan (Malaysia) including providing expertise by senior personnel, evaluation of the performance of the management team of Chengshan (Malaysia), supervision of financial management and overseeing compliance with applicable laws and regulations.
- Term:** The Entrusted Management Agreement shall be effective for a period commencing from the date of entering into the agreement by Chengshan (Malaysia) for the acquisition of certain parcels of land to construct tire production facilities in Malaysia until December 31, 2020
- Pricing Policy:** The Entrusted Management Agreement is a specific commercial arrangement agreed between Chengshan (Malaysia) and Prinx (Shandong) Tire and there is no established industry practice for similar arrangement. There is also no open market for the fees of the Entrusted Management Services to be provided by Prinx (Shandong) Tire under the Entrusted Management Agreement. Pursuant to the Entrusted Management Agreement, Chengshan (Malaysia) shall pay Prinx (Shandong) Tire a management fee, which is negotiated on arm's length basis between the parties based on the expected costs and expenses to be incurred in providing the Entrusted Management Services, plus reasonable margin.

The Entrusted Management Agreement between Chengshan (Malaysia) and Prinx (Shandong) Tire will constitute continuing connected transaction under Chapter 14A of the Listing Rules upon the Listing.

There was no historical information recorded for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018 as Chengshan (Malaysia) will only entrust Prinx (Shandong) Tire to provide the Entrusted Management Services from the date of entering into the agreement by Chengshan (Malaysia) for the acquisition of certain parcels of land to construct tire production facilities in Malaysia. Assuming Listing and the execution of the agreement for the acquisition of certain parcels of land to construct tire production facilities in Malaysia will be on or before October 9, 2018, the estimated annual management fee payable paid by Chengshan (Malaysia) to Prinx (Shandong) Tire which will constitute continuing connected transaction for the years ending December 31, 2018, 2019 and 2020 are approximately RMB1.0 million, RMB4.0 million and RMB4.0 million, respectively.

The above annual caps for the remaining period of 2018 and for the years ending December 31, 2019 and 2020 were determined based on the expected costs and expenses in providing such entrusted management services, plus reasonable margin, following arm's length negotiations between Chengshan (Malaysia) and Prinx (Shandong) Tire. The transaction under the Entrusted Management Agreement falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and this transaction will be exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Property Lease Agreement

On March 1, 2018, Prinx (Shandong) Tire entered into a property lease agreement with Chengshan Group pursuant to which we lease from Chengshan Group certain properties (the “**Property Lease Agreement**”) and the principal terms are set out below:

Parties:	(a) Chengshan Group (as landlord); and (b) Prinx (Shandong) Tire (as tenant)
Nature of transaction:	Lease of (i) a portion of the office space with 6,988.92 sq. meters located at No. 98 Nanshan North Road, Rongcheng City, Shandong Province, the PRC for use as office space; (ii) Nos. 49-53 and 55 Guotai Community, Rongcheng City, Shandong Province, the PRC for use as dormitories with 11,597.92 sq. meters; and (iii) No. 56 Guotai Community, Rongcheng City, Shandong Province, the PRC for use as staff canteen with 3,124.65 sq. meters
Term:	The Property Lease Agreement shall be effective for a period of three years from March 1, 2018 until February 28, 2021
Terms of payment:	Monthly rental is determined at RMB1 per square metre per day with reference to the total leased area (exclusive of utility charge and service cost) following arm’s length negotiations between the parties based on the prevailing market rental value

The Property Lease Agreement between Prinx (Shandong) Tire and Chengshan Group will constitute continuing connected transaction under Chapter 14A of the Listing Rules upon the Listing.

The rent incurred by Prinx (Shandong) Tire to Chengshan Group for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018 amounted to approximately RMB8.0 million, RMB7.9 million, RMB7.8 million and RMB1.9 million, respectively. Assuming Listing will be on or before October 9, 2018, the estimated annual rental amount payable by Prinx (Shandong) Tire to Chengshan Group which will constitute continuing connected transaction for the years ending December 31, 2018, 2019 and 2020 are RMB2.0 million, RMB8.0 million and RMB8.0 million, respectively.

The above annual caps for the remaining period of 2018 and each of the two years ending December 31, 2020 were determined with reference to our estimated total leased area.

CONTINUING CONNECTED TRANSACTIONS

2. Property Services Agreement

Rongcheng Chengshan Properties has ample expertise and experience and sufficient workforce for the provision of property services. On January 5, 2018, Prinx (Shandong) Tire entered into a property services agreement with Rongcheng Chengshan Properties pursuant to which Rongcheng Chengshan Properties provides certain property services to us (the “**Property Services Agreement**”) and the principal terms are set out below:

- Parties: (a) Rongcheng Chengshan Properties (as service provider);
and
(b) Prinx (Shandong) Tire (as service recipient)
- Nature of transaction: The provision of services including control of access to facilities, security, management of vehicles, cleaning, gardening, repair and maintenance of common area and shared facilities
- Term: The Property Services Agreement shall be effective for a period of three years from January 1, 2018 until December 31, 2020
- Terms of payment: Monthly service fees of RMB442,500 which was determined in accordance with the cost-plus approach and following arm’s length negotiations between the parties. The service fee is subject to annual review

The Property Services Agreement between Prinx (Shandong) Tire and Rongcheng Chengshan Properties will constitute continuing connected transaction under Chapter 14A of the Listing Rules upon the Listing.

The service fees incurred by Prinx (Shandong) Tire to Rongcheng Chengshan Properties for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018 amounted to approximately RMB5.4 million, RMB5.3 million, RMB5.3 million and RMB1.3 million, respectively. Assuming Listing will be on or before October 9, 2018, the estimated annual service fees payable by Prinx (Shandong) Tire to Rongcheng Chengshan Properties which will constitute continuing connected transaction for the years ending December 31, 2018, 2019 and 2020 are approximately RMB1.3 million, RMB5.3 million and RMB5.3 million, respectively.

The above annual caps for the remaining period of 2018 and each of the two years ending December 31, 2020 were determined with reference to (i) the historical transaction amounts paid by Prinx (Shandong) Tire to Rongcheng Chengshan Properties for the property services; and (ii) the prevailing market rates for similar services in the PRC.

CONTINUING CONNECTED TRANSACTIONS

3. Energy Management Framework Agreement

During the Track Record Period, in order to improve efficiency and reduce operating costs, Rongcheng Chengshan Energy-Saving Services provided energy-saving services in relation to energy-saving renovation projects of Prinx (Shandong) Tire (the “**Energy-saving Services**”) pursuant to a series of energy management contracts. The Energy-saving Services pertaining to these energy management contracts have been performed and completed as at the Latest Practicable Date, and payment under these contracts are either fully settled or payable following Listing.

On March 28, 2018, Prinx (Shandong) Tire entered into an energy management framework agreement with Rongcheng Chengshan Energy-Saving Services (the “**Energy Management Framework Agreement**”) pursuant to which Rongcheng Chengshan Energy-Saving Services may from time to time provide Energy-saving Services to us. Prinx (Shandong) Tire will be able to pay the investment cost of its energy conservation projects out of energy saving revenue, and therefore ease pressure on internal capital resources. The principal terms of the Energy Management Framework Agreement are set out below:

Parties	(a) Rongcheng Chengshan Energy-Saving Services (as service provider); and (b) Prinx (Shandong) Tire (as service recipient)
Nature of transaction:	Prinx (Shandong) Tire will enter into separate energy management contracts in respect of the lighting system and the system for tire vulcanization or other energy-saving services in its production plant or other relevant services for energy-saving which will set out the specific terms and conditions according to the provisions under the Energy Management Framework Agreement.
Term:	The Energy Management Framework Agreement shall be effective for a period from March 28, 2018 until December 31, 2020
Terms of payment:	Monthly service fees following arm’s length negotiations between the parties based on the amount of energy saving revenues

The Energy Management Framework Agreement between Rongcheng Chengshan Energy-Saving Services and Prinx (Shandong) Tire will constitute continuing connected transaction under Chapter 14A of the Listing Rules upon the Listing.

CONTINUING CONNECTED TRANSACTIONS

The aggregate service fees incurred by Prinix (Shandong) Tire to Rongcheng Chengshan Energy-Saving Services for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018 amounted to approximately RMB3.6 million, RMB9.0 million, RMB7.8 million and RMB1.8 million, respectively. Assuming Listing will be on or before October 9, 2018, the estimated annual service fees payable by Prinix (Shandong) Tire to Rongcheng Chengshan Energy-Saving Services which will constitute continuing connected transactions for the years ending December 31, 2018, 2019 and 2020 are approximately RMB4.0 million, RMB5.6 million and RMB3.0 million, respectively.

The above annual caps for the remaining period of 2018 and each of the two years ending December 31, 2020 were determined with reference to (i) the balance which remains payable by Prinix (Shandong) Tire under the existing energy management contracts and (ii) based on the expected energy-saving renovation projects of Prinix (Shandong) Tire; and (iii) following arm's length negotiations between Rongcheng Chengshan Energy-Saving Services and Prinix (Shandong) Tire, with reference to previous prices and on the principle of fairness.

WAIVER

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

We expect these partially-exempt continuing connected transactions to be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance with the applicable requirement under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company.

Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the announcement requirements of the Listing Rules in respect of the transactions as contemplated under the Property Lease Agreement, the Property Services Agreement and the Energy Management Framework Agreement, subject to the following conditions:

- (i) that the partially-exempt continuing connected transactions will be carried out in compliance with the requirements of the Listing Rules and that the Company shall comply with the relevant requirements for continuing connected transactions in accordance with Chapter 14A of the Listing Rules; and
- (ii) that the value of transactions contemplated under the Property Lease Agreement, the Property Services Agreement and the Energy Management Framework Agreement for the respective terms thereunder will not exceed the respective annual caps. In the case that any of the annual caps are exceeded, the Company will comply with the applicable requirements under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

DIRECTORS' VIEW

Our Directors, including the independent non-executive Directors, are of the view that the partially-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better, and such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, including the independent non-executive Directors, are also of the view that the respective annual caps thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONFIRMATION BY THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the partially-exempt continuing connected transactions referred to above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better, and such terms are fair and reasonable and in the interests of our Company and the Shareholders as a whole and (ii) the proposed annual caps for such transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business – Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$6.70 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$837.9 million (RMB729.5 million), after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 4.7% (approximately HK\$39.1 million or RMB34.0 million) will be used for investment in the first phase of our All Steel Radial Tires capacity expansion in Rongcheng, Shandong Province. The amount will be used for the purchase and set-up of automated logistics facilities and MES.
- approximately 35.8% (approximately HK\$300.2 million or RMB261.3 million) will be used for the second phase of our All Steel Radial Tires capacity expansion in Rongcheng, Shandong Province.
 - i. 26.1% (approximately RMB190.5 million) for production equipment, primarily including:
 - a. 16.6% (approximately RMB121.4 million) for equipment used during vulcanization stage of production process;
 - b. 4.8% (approximately RMB35.2 million) for equipment used for during the tire formation stage of our production process;
 - c. 4.7% (approximately RMB33.9 million) for equipment used to produce work-in-progress products, such as product components;
 - ii. 6.9% (approximately RMB50.0 million) for the purchase and set-up of automated logistics facilities and MES; and
 - iii. 2.9% (approximately RMB20.8 million) for construction of basic infrastructure for the second phase of our production base.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 19.8% (approximately HK\$165.9 million or RMB144.5 million) will be used for the expansion of our Semi-Steel Radial Tires production capacity.
 - i. 13.0% (approximately RMB95.1 million) for production equipment, primarily including:
 - a. 4.6% (approximately RMB33.3 million) for equipment used during vulcanization stage of production process;
 - b. 2.6% (approximately RMB19.1 million) for equipment used to produce work-in-progress products, such as product components;
 - c. 1.6% (approximately RMB12.0 million) for equipment used for raw material mixing;
 - d. 4.2% (approximately RMB30.7 million) for equipment used for during the tire formation stage of our production process;
 - ii. 2.5% (approximately RMB18.5 million) for construction of plants and utility; and
 - iii. 4.2% (approximately RMB30.9 million) for the purchase and set-up of automated logistics facilities and MES.
- approximately 30.0% (approximately HK\$251.4 million or RMB218.9 million) will be used for overseas investments, including constructing and/or acquiring an overseas production base; and
- approximately 9.7% (approximately HK\$81.3 million or RMB70.8 million) will be used for working capital purposes.

In deciding whether to invest in or acquire a particular asset or business, including but not limited to an overseas production base, we consider multiple factors, including the location of such project and whether it allows/helps us to (i) better manage our production costs, (ii) readily access our target market, (iii) participate in the “One Belt One Road” Initiative, and (iv) mitigate the risks that comes with trade regulations, such as anti-dumping and anti-subsidy duties. If the allocated portion of the proceeds is not sufficient for an identified investment, we plan to apply cash generated from operations or take loans from commercial banks to make up the difference, if necessary. In the event that we plan to re-allocate the relevant portion of proceeds proportionately to other use of proceeds categories disclosed above if we do not identify any suitable targets, we will comply with the relevant Listing Rules to announce the planned change in use of proceeds. As of the Latest Practicable Date, we did not identify any potential investment target.

FUTURE PLANS AND USE OF PROCEEDS

We currently seek to invest in projects with internal rates of return of no less than 10%, and payback periods of no more than 10 years, subject but not limited to the following factors: the return of investment, future growth potential and the level of synergy created by the investment. In addition, we are subject to the various risks in executing our expansion according to our plan, such as market, geographic and regulatory risks in locations we previously did not have operations. In an effort to mitigate risks, our management team plan to collaborate with personnel familiar with the local operation to manage a scaled operation that consist of local personnel. In addition, we have made assumptions that are based on our understanding of the relevant market when calculating the expected return for our investment. The assumptions we applied to conduct our feasibility studies and our market analysis may not be entirely accurate, and our investment may not yield the intended results. We will continue to monitor the market and regulatory conditions of the markets and jurisdictions to which we have a potential to expand into and make adjustment of our expansion plan and expectation accordingly.

We believe funding our expansion plans through equity offering is preferable to long-term debt financings for a number of reasons, including (i) long-term debt for the purpose of capital expenditure usually carries a premium interest rate; (ii) it is increasingly difficult to procure long-term debt from the major PRC banks due to the PRC government's de-leverage policy; and (iii) as the majority of our operations and assets are located in the PRC, it is difficult to procure debt from overseas banks to fund our overseas expansion plan at the current stage.

If the Offer Price is fixed at HK\$7.50 per Offer Share (being the high end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, we will receive additional net proceeds of approximately HK\$104.8 million. If the Offer Price is fixed at HK\$5.89 per Offer Share (being the low end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds we receive will be reduced by approximately HK\$106.1 million. The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated Offer Price range.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK\$147.3 million (assuming an Offer Price of HK\$7.50 per Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$131.5 million (assuming an Offer Price of HK\$6.70 per Share, being the mid-point of the Offer Price range stated in this prospectus) and (iii) HK\$115.7 million (assuming an Offer Price of HK\$5.89 per Share, being the low-end of the Offer Price range stated in this prospectus). Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purposes accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term deposits or money market instruments.

FUTURE PLANS AND USE OF PROCEEDS

The allocation of our use of proceeds may be adjusted according to our future development strategies and progress. In the event of any material change in our use of net proceeds of the Global Offering from the purposes described above or in our allocation of the net proceeds among the purposes described above, a formal announcement will be made.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

The Company has entered into cornerstone investment agreements (the “**Cornerstone Investment Agreements**”) with certain investors (the “**Cornerstone Investors**” and each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors, in aggregate, have agreed to subscribe for, at the Offer Price, such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased with USD31.8 million. Assuming (i) no exercise of the Over-allotment Option and the Offer Price is HK\$7.50, being the high-end of the Offer Price range shown in this prospectus, the Cornerstone Investors, in aggregate, will subscribe for 33,278,500 Shares, representing 24.65% of the Offer Shares, and 5.24% of the Shares in issue upon the completion of the Global Offering; (ii) no exercise of the Over-allotment Option and the Offer Price is HK\$6.70, being the mid-point of the Offer Price range shown in the prospectus, the Cornerstone Investors will, in aggregate, subscribe for 37,252,000 Shares, representing 27.59% of the Offer Shares, and 5.87% of the Shares in issue upon the completion of the Global Offering; and (iii) no exercise of the Over-allotment Option and the Offer Price is HK\$5.89, being the low-end of the Offer Price range shown in this prospectus, the Cornerstone Investors will, in aggregate, subscribe for 42,375,000 Share, representing 31.39% of the Offer Shares, and 6.67% of the Shares in issue upon the completion of the Global Offering. Assuming (a) full exercise of the Over-allotment Option and the Offer Price is HK\$7.50, being the high-end of the Offer Price range shown in this prospectus, the Cornerstone Investors, in aggregate, will subscribe for 33,278,500 Shares, representing 21.44% of the Offer Shares, and 5.08% of the Shares in issue upon the completion of the Global Offering; (b) full exercise of the Over-allotment Option and the Offer Price is HK\$6.70, being the mid-point of the Offer Price range shown in the prospectus, the Cornerstone Investors will, in aggregate, subscribe for 37,252,000 Shares, representing 23.99% of the Offer Shares, and 5.69% of the Shares in issue upon the completion of the Global Offering; and (c) full exercise of the Over-allotment Option and the Offer Price is HK\$5.89, being the low-end of the Offer Price range shown in this prospectus, the Cornerstone Investors will, in aggregate, subscribe for 42,375,000 Share, representing 27.29% of the Offer Shares, and 6.47% of the Shares in issue upon the completion of the Global Offering.

The cornerstone placing forms part of the International Offering and the Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreements. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Shares in issue upon the completion of the Global Offering and will be counted towards the public float of the Company. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will become a substantial shareholder of the Company (as defined under the Listing Rules). The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the “Structure of the Global Offering – The Hong Kong Public Offering” section in this prospectus.

CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, if the requirement pursuant to Rule 8.03(3) of the Listing Rules, in which no more than 50% of the Shares in public hands on the Listing Date can be beneficially owned by the three largest public Shareholders cannot be satisfied by the Company, the Sole Global Coordinator and the Company have the right to adjust the allocation of the number of Shares on a pro-rata basis to be purchased by each of the Cornerstone Investors in their sole and absolute discretion to satisfy the requirement pursuant to Rule 8.03(3) of the Listing Rules.

To the best knowledge of the Company, each of the Cornerstone Investors is an Independent Third Party, not a connected person and not an existing shareholder or close associate of the Company.

CORNERSTONE INVESTOR

The Company has entered into a Cornerstone Investment Agreement with each of the following Cornerstone Investors in respect of the cornerstone placing:

Xingda International Holdings Limited

Xingda International Holdings Limited (“**Xingda**”) has agreed to subscribe for such number of Shares at the Offer Price which may be purchased with USD9.0 million (rounded down to the nearest whole board lot of 500 Shares). Assuming the Offer Price is fixed at HK\$5.89, being the low-end of the Offer Price range, the total number of Offer Shares that Xingda would subscribe for would be 11,993,000 Shares, representing (i) approximately 8.88% of the Offer Shares and approximately 1.89% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) approximately 7.72% of the Offer Shares and approximately 1.83% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

Xingda is an investment holding company incorporated in the Cayman Islands and was listed on the Main Board of the Hong Kong Stock Exchange in 2006 (Stock code: 1899). Xingda is primarily engaged in the manufacturing and distribution of backbone materials for radial tires including radial tire cords that support the tire wall and bead wires that connect the tire to the wheel-rim. Boasting unique production technologies, strong R&D capabilities and stringent quality control, Xingda has established a solid foothold in China and is one of the largest manufacturers of radial tire cords in China. Xingda’s headquarters and production base are located in the Jiangsu Province, the PRC. A subsidiary of Xingda was one of our top five suppliers for the years ended December 31, 2016, 2017 and the three months ended March 31, 2018 supplying us with steel wire cords.

CORNERSTONE INVESTORS

榮成市國有資本運營有限公司 (Rongcheng State-owned Capital Operation Co. Ltd.)

Rongcheng State-owned Capital Operation Co. Ltd. (“**Rongcheng**”) has agreed to subscribe through an asset manager that is a qualified domestic institutional investor managed by Orient Fund Management Co., Ltd., or to procure such asset manager to subscribe on its behalf for such number of Shares at the Offer Price which may be purchased with USD17.8 million (rounded down to the nearest whole board lot of 500 Shares). Assuming the Offer Price is fixed at HK\$5.89, being the low-end of the Offer Price range, the total number of Offer Shares that Rongcheng would subscribe for would be 23,719,500 Shares, representing (i) approximately 17.57% of the Offer Shares and approximately 3.74% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) approximately 15.28% of the Offer Shares and approximately 3.62% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

Rongcheng is a limited liability company established in the PRC in November 1998 with a registered capital of RMB300 million. Rongcheng is primarily engaged in the management and operation of state-owned assets, implementation of infrastructure projects in relation to, among other things, water works, roads, heat supply and gas supply, and rural area transformation and construction. Rongcheng is wholly-owned by 榮成市經濟開發投資公司 (Rongcheng Economic Development Investment Co. Ltd.), a company incorporated in the PRC as an enterprise owned by the whole people in 1992 and is principally engaged in the development of operational investment businesses.

Tong Wo Company Limited

Tong Wo Company Limited (“**Tong Wo**”) has agreed to subscribe for such number of Shares at the Offer Price which may be purchased with USD5.0 million (rounded down to the nearest whole board lot of 500 Shares). Assuming the Offer Price is fixed at HK\$5.89, being the low-end of the Offer Price range, the total number of Offer Shares that Tong Wo would subscribe for would be 6,662,500 Shares, representing (i) approximately 4.94% of the Offer Shares and approximately 1.05% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) approximately 4.29% of the Offer Shares and approximately 1.02% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

Tong Wo is a company incorporated in Hong Kong in August 2009 and is owned as to 50% by Hui King San and 50% by Lu Juan Ho. Tong Wo is primarily engaged in the manufacturing and logistics with subsidiaries located throughout China.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, amongst other things, the following conditions precedent:

- a. the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into, having become effective and unconditional (in

CORNERSTONE INVESTORS

- accordance with their respective original terms or as subsequently waived, to the extent it may be waived, or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements;
- b. the Offer Price having been agreed by the Sole Global Coordinator (on behalf of the Underwriters) and the Company in connection with the Global Offering;
 - c. the Listing Committee of the Hong Kong Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;
 - d. the respective representations, warranties, undertakings and acknowledgements of the Cornerstone Investor, and the Company are (as of the date of the relevant Cornerstone Investment Agreement) and will be (as of the Listing Date and the Delivery Date (as defined in the relevant Cornerstone Investment Agreement)) true and accurate in all material respects and not misleading and there being no breach of the relevant Cornerstone Investment Agreement on the part of the relevant Cornerstone Investor; and
 - e. no Laws (as defined in the relevant Cornerstone Investment Agreement) shall have been enacted or promulgated by any Governmental Authority (as defined in the relevant Cornerstone Investment Agreement) which prohibits the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or herein and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the relevant Cornerstone Investment Agreement) any of the relevant Shares or any interest in any company or entity holding any of the relevant Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of the relevant Cornerstone Investor provided that, amongst other requirements, such wholly-owned subsidiary undertakes to, and the relevant Cornerstone Investor undertakes to procure that such subsidiary will, abide by such restrictions imposed on the relevant Cornerstone Investor.

UNDERWRITING

HONG KONG UNDERWRITERS

Guotai Junan Securities (Hong Kong) Limited
Haitong International Securities Company Limited
Essence International Securities (Hong Kong) Limited
Ever-Long Securities Company Limited
Freeman Securities Limited
Quasar Securities Co., Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator, for itself and on behalf of the Underwriters, and our Company agreeing to the final Offer Price), the Hong Kong Underwriters have agreed to subscribe or procure subscribers for the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among others, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination with immediate effect by the Sole Global Coordinator, in its sole and absolute discretion (for itself and on behalf of the Hong Kong Underwriters) by notice orally or in writing to our Company at any time prior to 8:00 a.m. on the Listing Date if:

- (a) there develops, occurs, exists or comes into force:
 - (i) any event or series of events resulting in or representing a calamity or crisis or a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions or sentiments (including, without limitation, conditions and sentiments in stock and bond markets, money and foreign exchange markets, investment and credit markets and inter-bank markets) or currency exchange rate or controls in or affecting Hong Kong, Macau, the PRC, the United States, Japan, Australia, the European Union (or any member thereof), Singapore, the United Kingdom and the Cayman Islands, or any other jurisdiction relevant to any member of the Group (collectively the “**Relevant Jurisdictions**”); or

UNDERWRITING

- (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, declaration of a national or international emergency, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), epidemic, pandemic, outbreak of infectious disease (including without limitation SARS, MERS, H5N1, H7N9 or H1N1 or swine or avian influenza or such related/mutated forms), accident or interruption or delay in transportation or economic sanctions) in or affecting any of the Relevant Jurisdictions; or
- (iv) without limiting the foregoing, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism (whether or not responsibility has been claimed), or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) the imposition or declaration of (1) any moratorium, suspension, restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, NYSE Amex Equities, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the London Stock Exchange, the Singapore Stock Exchange or (2) any moratorium on, or disruption in, banking activities (commercial or otherwise) or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions; or
- (vi) any change or development involving a change or prospective change in taxation or exchange controls (or the implementation of any exchange control) or currency exchange rates or foreign investment regulations in or affecting any of the Relevant Jurisdictions (including without limitation any fluctuation in the Hong Kong dollars or Renminbi against any foreign currencies); or
- (vii) the commencement by any authority or other regulatory or political body or law enforcement agency or organisation of any action or investigation against Mr. Che Baozhen, Mr. Shi Futao, Ms. Cao Xueyu or Mr. Che Hongzhi, or an announcement by any authority or regulatory or political body or law enforcement agency or organisation that it intends to take any such action; or

UNDERWRITING

- (viii) any imposition of economic sanction or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, the U.S. or the European Union (or any member thereof) on any of the Relevant Jurisdictions; or
- (ix) any change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or the value of the Renminbi is determined by reference to a basket of world currencies or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currency; or
- (x) any change or development or event involving a prospective change in the Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects, or any change in capital stock or long-term debt of the Company or any other member of the Group, or any loss or interference with the assets, operations or business of the Company or any other member of the Group, which (in any such case) is not set forth in this prospectus; or
- (xi) save as disclosed in this prospectus, a demand by any tax authority for payment for any tax liability for any member of the Group; or
- (xii) a demand by any creditor for repayment or payment of any indebtednesses of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (xiii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription of the Hong Kong Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law,

and which, in any such case (whether individually or in the aggregate) and in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters): (1) is or will or may be materially adverse to, or materially and prejudicially affect, the assets, liabilities, the business, general affairs, management, shareholder's equity, profit, losses, results of operations or financial or trading position or condition, or prospects of the Group as a whole or any present or prospective shareholder in its capacity as such; or (2) has or will or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of the Offer Share and/or make it impracticable, inadvisable, in expedient or not commercially viable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (3) makes or will or may make it impracticable, inadvisable, inexpedient, incapable or not commercially viable to proceed with any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering and/or the Global Offering or the delivery of Shares on the terms and in the manner contemplated by this prospectus or for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented as envisaged; or

UNDERWRITING

- (b) there has come to the notice of the Sole Global Coordinator or it has reasonable cause to believe:
- (i) that any statement contained in any of the formal notice in relation to the Hong Kong Public Offering, this prospectus and the Application Forms or other documents relating to the Global Offering was or has become untrue or incorrect or incomplete or misleading in any respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in this prospectus or any notice, advertisement or announcement issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (ii) any matter which would, if the formal notice in relation to the Hong Kong Public Offering, this prospectus and the Application Forms or other documents relating to the Global Offering and/or any notice, advertisement or announcement issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) were issued at that time, constitute a material omission therefrom; or
 - (iii) that any of the warranties or representations and warranties given by the Company and the warrantors under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement is (or would if repeated at that time be) breached or is untrue or incorrect or incomplete in any respect or misleading; or
 - (iv) any matter, event, act or omission which gives or is likely to give rise to any liability on the part of the Company, the warrantors or any of them out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties and/or the indemnities given by the Company, the warrantors or any of them under the Hong Kong Underwriting Agreement; or
 - (v) any event, act or omission which gives rise or is likely to give rise to any liability of the Company, the warrantors or any of them pursuant to the indemnities under the Hong Kong Underwriting Agreement; or
 - (vi) any breach of any of the obligations or undertakings of the Company, the executive Directors or the Controlling Shareholders under the Hong Kong Underwriting Agreement, the International Underwriting Agreement or any other agreement relating to the Global Offering as determined by the Sole Global Coordinator in its sole and absolute opinion; or
 - (vii) that (1) any executive Director of the Company named in this prospectus seeks to resign or retire, or is removed from office, or (2) any certificate given by the Company or any of its officers to the Sole Global Coordinator under or in connection with the Hong Kong Underwriting Agreement or the Global Offering is false or misleading, or (3) Mr. Che Baozhen, Mr. Shi Futao,

UNDERWRITING

Ms. Cao Xueyu or Mr. Che Hongzhi is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

- (viii) save as disclosed in this prospectus, a contravention by any member of the Group of the Listing Rules or the Companies Ordinance or any applicable laws or regulations; or
- (ix) any material litigation, legal action or claim being threatened or instigated against any member of the Group, Mr. Che Baozhen, Mr. Shi Futao, Ms. Cao Xueyu or Mr. Che Hongzhi; or
- (x) a petition is presented for the winding-up or liquidation (other than by way of voluntary winding-up) of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xi) a prohibition on the Company for whatever reason from allotting, issuing the Offer Shares (including the Shares to be sold pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xii) the Company withdraws this prospectus and/or the Application Forms; or
- (xiii) approval by the Listing Committee for the listing of, and permission to deal in, the Shares to be issued or sold (including any Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xiv) PricewaterhouseCoopers as the reporting accountant, King & Wood Mallesons as the legal advisors to the Company on PRC law, Ogier as the legal advisors to the Company on Cayman law, Ben & Partners as the legal advisors to the Company on Malaysian law, Hogan Lovells as the legal advisors to the Company on international sanctions law or Frost & Sullivan as the industry consultant in relation to the Global Offering, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

UNDERWRITING

Undertakings to the Hong Kong Stock Exchange under the Listing Rules

By us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that, except pursuant to the Global Offering and the Over-allotment Option, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted by Rule 10.08(1) to (5) of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and our Company respectively that, except pursuant to the Stock Borrowing Agreement, the Global Offering and the Over-allotment Option as described and contained in this prospectus, it/he/she shall not and shall procure that the relevant registered shareholder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owners; or
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a Controlling Shareholder (as defined in the Listing Rules).

Each of our Controlling Shareholders has also undertaken to the Hong Kong Stock Exchange and our Company respectively that, within the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it will:

- (a) when he/she/it pledges or charges any Shares beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when he/she/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

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Our Company shall also inform the Hong Kong Stock Exchange in writing as soon as it has been informed of the above matters (if any) by our Controlling Shareholders and disclose such matters by way of a public announcement to be published in accordance with the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

By us

Our Company has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering and the Over-allotment Option, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date which is six months after the Listing Date (the “**First Six-Month Period**”), our Company will not, and will procure that each other member of the Group will not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) and (b) above; or

UNDERWRITING

- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) and (c) above,

in each case, whether any of the foregoing transactions specified in paragraphs (a), (b) and (c) above is to be settled by delivery of the Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not such issue of the Shares or securities will be completed within such period). In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market in the securities of our Company. Each of our Controlling Shareholders undertake to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters to procure our Company to comply with the undertakings set out above.

By our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save as pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) he/she/it will not and, will procure that none of the relevant registered shareholder(s) will, during the First Six-Month Period: (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) provided that the restriction shall not apply to the lending of Shares pursuant to the Stock Borrowing Agreement; or (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above, in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of the Shares or such other securities of our Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

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- (b) he/she/it will not and, will procure that none of the relevant registered shareholder(s) will, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (i), (ii) or (iii) in paragraph (a) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/she/it will cease to be a Controlling Shareholder of our Company;
- (c) until the expiry of the Second Six-Month Period, in the event that he/she/it enters into any of the transactions specified in paragraph (i), (ii) or (iii) in paragraph (a) above or offers to or agrees to or announces any intention to effect any such transaction, he/she/it will take all reasonable steps to ensure that such transaction, agreement or announcement, as the case may be, will not, and will procure that none of the relevant registered shareholder(s) will, create a disorderly or false market in the securities of our Company; and
- (d) he/she/it shall, and shall procure that its respective associates and companies controlled by him/her/it and any nominee or trustees holding in trust for him/her/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him//her/it or by the registered holder controlled by him/her/it of any Shares.

Underwriting Commission and Expenses

The Hong Kong Underwriters are expected to receive a commission of 2.5% of the Offer Price of all the Hong Kong Public Offer Shares, out of which they will pay any sub-underwriting commission. In addition, our Company may, at our sole discretion, pay an incentive fee of up to 0.5% of the Offer Price of all the Offer Shares under the Global Offering to the Sole Global Coordinator in recognition of its services. Commission payable to the Underwriters, together with the Hong Kong Stock Exchange listing fees, the Hong Kong Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, is currently estimated to be approximately HK\$66.6 million in aggregate (based on an Offer Price of HK\$6.70 per Share, being the mid-point of the indicative Offer Price range of HK\$5.89 to HK\$7.50 per Share, and on the assumptions of a commission rate of 2.5%, an incentive fee of 0.5% and the Over-allotment Option not being exercised), which is to be borne by our Company.

International Offering

In connection with the International Offering, it is expected that our Company, will enter into the International Underwriting Agreement with, inter alia, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions, severally agree to subscribe or buy or procure subscribers or purchasers for the International Offer Shares being offered pursuant to the International Offering.

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Our Company is expected to grant to the Sole Global Coordinator the Over-allotment Option, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging applications under the Hong Kong Public Offering to require our Company to allot and issue up to an aggregate of 20,250,000 additional Shares, representing 15% of the initial Offer Shares in aggregate, at the same price per Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

INDEMNITY

Each of the warrantors under the Hong Kong Underwriting Agreement has agreed to indemnify the Sole Sponsor and the Hong Kong Underwriters against certain losses which the Sole Sponsor and/or the Hong Kong Underwriters may suffer, including losses arising from its performance of its obligations under the Hong Kong Underwriting Agreement and any breach by our Company and each of the warrantors under the Hong Kong Underwriting Agreement of the Hong Kong Underwriting Agreement.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their obligations under the relevant Underwriting Agreements, none of the Underwriters has any shareholding in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Global Offering (the “**Syndicate Members**”) and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own accounts and for the account of others. In relation to our Shares, other activities could include acting as agent for buyers and sellers of our Shares, entering into transactions with other buyers and sellers in a principal capacity, proprietary trading in our Shares, and entering into over-the-counter or listing derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on the Hong Kong Stock Exchange) which have as their underlying, assets including our Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling our Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our Shares, in baskets of securities or indices including our Shares, in units of funds that may purchase our Shares, or in derivatives related to any of the foregoing.

UNDERWRITING

In relation to issues by Syndicate Members or their affiliates of any listed securities having our Shares as their or part of their underlying assets, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of other securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and these will also result in hedging activity in our Shares in most cases.

All these activities may occur both during and after the end of the stabilising period described in “Structure of the Global Offering – Stabilisation” in this prospectus. These activities may affect the market price or value of our Shares, the liquidity or trading volume in our Shares, and the volatility of our Share price, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$7.50 per Offer Share and is expected to be not less than HK\$5.89 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$7.50 per Share plus 1.0% brokerage fee, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee amounting to a total of HK\$3,787.79 for one board lot of 500 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$7.50, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on or before the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, October 2, 2018 and in any event, no later than Wednesday, October 3, 2018.

The Offer Price will not be more than HK\$7.50 per Offer Share and is expected to be not less than HK\$5.89 per Offer Share. The Offer Price will be determined within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional, corporate and other investors during the book-building process, and with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with us, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offer statistics as currently set out in the section headed “Summary” of this prospectus and any other financial information which may change materially as a result of such reduction.

STRUCTURE OF THE GLOBAL OFFERING

In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the number of Offer Shares and/or the Offer Price, if agreed by us, will under no circumstances be fewer than the number of Offer Shares or be set outside the Offer Price range as stated in this prospectus.

If we are unable to reach agreement with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Offer Price on or before Tuesday, October 2, 2018, being the Price Determination Date, and, in any event, if we are unable to reach agreement with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Offer Price by Wednesday, October 3, 2018, the Global Offering will not become unconditional and will lapse immediately.

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offering and the results of application and basis of allotment of the Hong Kong Offer Shares, on Monday, October 8, 2018.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering and the International Offering. We intend to make available initially up to 135,000,000 Shares under the Global Offering (assuming the Over-allotment Option is not exercised), of which 121,500,000 Shares will initially be conditionally placed pursuant to the International Offering and the remaining 13,500,000 Shares will initially be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under “Structure of the Global Offering – The Hong Kong Public Offering”). We will conditionally place our Shares in the International Offering with professional, institutional, corporate and other investors whom we anticipate to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

Investors may apply for our Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for our Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of our Shares to professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional, corporate and other investors will be required to specify the number of our Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to the Price Determination Date.

STRUCTURE OF THE GLOBAL OFFERING

Allocation of our Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, Shares, after the Listing. Such allocation is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5.0 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 6,750,000 Hong Kong Offer Shares (being 50% of the 13,500,000 Shares initially comprised in the Hong Kong Public Offering) are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriter(s) pursuant to the International Underwriting Agreement, exercisable by the Sole Global Coordinator on behalf of the International Underwriter(s). The Over-allotment Option gives the Sole Global Coordinator the right exercisable at any time from the date of the International Underwriting Agreement up to the thirtieth day from the last day for the lodging of applications under the Hong Kong Public Offering to require us to sell up to an aggregate of 20,250,000 new Shares, representing 15% of the initial size of the Global Offering at the Offer Price solely to cover over-allocations in the International Offering if any. The Sole Global Coordinator may also cover such over-allocations by purchasing the Offer Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, a press announcement will be made. For further details, please refer to subsection headed “– The Over-allotment Option” in this section.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriter(s) in each case on a several basis, each being subject to the conditions set out under “Structure of the Global Offering – Conditions of the Hong Kong Public Offering”. We entered into the Hong Kong Underwriting Agreement and, subject to an agreement on the Offer Price between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), we expect to enter into the International Underwriting Agreement on or around Tuesday, October 2, 2018. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are expected to be conditional upon each other.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set out in the Hong Kong Underwriting Agreement) for the subscription in Hong Kong of initially 13,500,000 Shares at the Offer Price (representing 10% of the total number of Shares initially available under the Global Offering). Subject to the reallocation of Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 2.1% of our Company’s enlarged issued share capital immediately after completion of the Global Offering (without taking into account shares issued upon the exercise of Over-allotment Option).

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the Sole discretion of the Sole Global Coordinator.

STRUCTURE OF THE GLOBAL OFFERING

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation on the following basis:

- (a) Where the International Offer Shares are fully subscribed or oversubscribed:
 - (i) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 40,500,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
 - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 54,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and
 - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 67,500,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).
- (b) Where the International Offer Shares are undersubscribed:
 - (i) if the Offer Shares for Hong Kong Public Offering are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Offer Shares for Hong Kong Public Offering are oversubscribed irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 27,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

STRUCTURE OF THE GLOBAL OFFERING

If (i) the Offer Shares under the International Offering are fully subscribed or oversubscribed, and the Offer Shares under the Hong Kong Public Offering are oversubscribed by less than 15 times of the number of Offer Shares initially available under the Hong Kong Public Offering; or (ii) the Offer Shares under the International Offering are undersubscribed, and the Offer Shares under the Hong Kong Public Offering are oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the indicative Offer Price range (i.e. HK\$5.89 per Offer Share) stated in this Prospectus.

In the event of reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering in circumstances under paragraph (a)(i), (a)(ii), (a)(iii) and (b)(ii) above, the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator will have the discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such proportion and amounts as they deem appropriate. Conversely, the Sole Global Coordinator may at its discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (a) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in our Shares on the Hong Kong Stock Exchange;
- (b) the Offer Price having been duly agreed between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective Underwriting Agreements,

STRUCTURE OF THE GLOBAL OFFERING

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of the Hong Kong Public Offering is conditional upon, among other things, the International Offering and the Hong Kong Public Offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and we will notify the Hong Kong Stock Exchange immediately. We will publish or cause to be published a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse.

In case the Hong Kong Public Offering lapses, we will return all application monies to the applicants, without interest and on the terms set out under “How to Apply for Hong Kong Offer Shares” In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker(s) or other bank(s) licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

THE INTERNATIONAL OFFERING

The number of Offer Shares to be initially offered for subscription or purchase under the International Offering will be 121,500,000 Offer Shares to be offered by us representing 90% of the Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Pursuant to the International Offering, the International Offer Shares will be conditionally placed by the International Underwriter(s), or through selling agents appointed by them, with professional, institutional, corporate and other investors anticipated to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of the Offer Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE OVER-ALLOTMENT OPTION

In connection with the Global Offering, we intend to grant the Over-allotment Option to the Sole Global Coordinator on behalf of the International Underwriter(s). The Over-allotment Option gives the Sole Global Coordinator the right exercisable at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to sell up to an aggregate of 20,250,000 new Shares, representing in aggregate 15% of the initial size of the Global Offering at the Offer Price solely to cover over-allocations in the International Offering, if any. The Sole Global Coordinator may also cover such over-allocations by purchasing Shares in the secondary market or by a combination of purchase in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Shares will represent approximately 3.09% of our enlarged share capital following the completion of the Global Offering. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In order to facilitate settlement of over-allocations in connection with the International Offering, Chengshan Group and the Stabilising Manager will enter into the Stock Borrowing Agreement. Under the Stock Borrowing Agreement, Chengshan Group will agree with the Stabilising Manager that, if requested by the Stabilising Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilising Manager up to 20,250,000 Shares held by Chengshan Group by way of stock lending, in order to cover over-allocations in connection with the International Offering.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, provides that such stock borrowing arrangement will only be effected by the Stabilising Manager for the purpose of settling over-allocations of Shares in connection with the International Offering and covering any short position prior to the exercise of the Over-allotment Option. The maximum number of shares to be borrowed from Chengshan Group under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option. The same number of Shares so borrowed is to be returned to Chengshan Group or its nominees, as the case may be, not later than the third business day following the earlier of (i) the day on which the Over-allotment Option is exercised in full, or (ii) the last day on which the Over-allotment Option may be exercised by the Stabilising Manager. The stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefits will be made to Chengshan Group by the Stabilising Manager or any of the International Underwriter(s) in relation to such stock borrowing arrangement.

STRUCTURE OF THE GLOBAL OFFERING

STABILISING ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws, rules and regulations of Hong Kong, over-allocate or any effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing after the last day of the lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any stabilising activity. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 20,250,000 new Shares, which is 15.0% of the Shares initially available under the Global Offering.

The Stabilising Manager or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

- (i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our Shares; and/or
- (ii) in connection with any action described in paragraph (i) above:
 - (A) (1) over-allocate our Shares; or
 - (2) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our Shares;
 - (B) stock borrowing;
 - (C) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (A) above;

STRUCTURE OF THE GLOBAL OFFERING

- (D) sell or agree to sell any of our Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or
- (E) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B), (ii)(C) or (ii)(D) above.

The Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager or any person acting for it, which may include a decline in the market price of our Shares. Stabilisation cannot be used to support the price of our Shares for longer than the stabilization period, which begins on the day on which dealings in our Shares commence on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilizing period in accordance with the Securities and Futures (Price Stabilizing) Rules of the SFO.

Any stabilizing action taken by the Stabilising Manager, or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilization period. Stabilization bids or market purchases effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, October 9, 2018, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, October 9, 2018. The Shares will be traded on the Main Board in board lots size of 500 Shares each.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and us on the Price Determination Date and subject to the other conditions set out in subsection headed “– Conditions of the Hong Kong Public Offering” above.

We expect, shortly after determination of the Offer Price on the Price Determination Date, to enter into the International Underwriting Agreement relating to the International Offering.

Underwriting Arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of China.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, September 24, 2018 until 12:00 noon on Friday, September 28, 2018 from:

- (i) the following address of the Hong Kong Underwriters:

Guotai Junan Securities (Hong Kong) Limited	27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Haitong International Securities Company Limited	22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Essence International Securities (Hong Kong) Limited	39/F, One Exchange Square Central Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Ever-Long Securities Company Limited	18/F Dah Sing Life Building 99-105 Des Voeux Road Central Hong Kong
Freeman Securities Limited	38/F, BOC Tower 1 Garden Road, Central Hong Kong
Quasar Securities Co., Limited	Unit A 12/F Harbour Commercial Building 122-124 Connaught Road, Central Hong Kong

(ii) any of the following branches of Bank of China (Hong Kong) Limited:

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Sheung Wan Branch	Shop 1-4, G/F Tung Hip Commercial Building 244-248 Des Voeux Road Central Hong Kong
	Taikoo Shing Branch	Shop G1006 Hoi Sing Mansion Taikoo Shing Hong Kong
Kowloon	Wong Tai Sin Branch	Shop G13 Wong Tai Sin Plaza Wong Tai Sin Kowloon
	Yau Ma Tei Branch	471 Nathan Road Yau Ma Tei Kowloon
New Territories	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza 1 On Tai Road Tai Po New Territories
	Metro City Branch	Shop 209, Level 2 Metro City Phase 1 Tseung Kwan O New Territories

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, September 24, 2018 until 12:00 noon on Friday, September 28, 2018 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – PRINX CHENGSHAN PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Monday, September 24, 2018 – 9:00 a.m. to 5:00 p.m.
Wednesday, September 26, 2018 – 9:00 a.m. to 5:00 p.m.
Thursday, September 27, 2018 – 9:00 a.m. to 5:00 p.m.
Friday, September 28, 2018 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, September 28, 2018, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Cayman Companies Law and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, the Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective directors, officers,

HOW TO APPLY FOR HONG KONG OFFER SHARES

employees, agents, affiliates or advisors or any other party involved in the Global Offering will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) and are not a U.S. person (as defined in Regulation S);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xviii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xix) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xx) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9.00 a.m. on Monday, September 24, 2018 until 11:30 a.m. on Friday, September 28, 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, September 28, 2018 or such later time under “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Prinx Chengshan (Cayman) Holding Limited” **White Form eIPO** application submitted via the website www.eipo.com.hk to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, September 24, 2018 – 9:00 a.m. to 8:30 p.m.
Wednesday, September 26, 2018 – 8:00 a.m. to 8:30 p.m.
Thursday, September 27, 2018 – 8:00 a.m. to 8:30 p.m.
Friday, September 28, 2018 – 8:00 a.m. to 12:00 noon

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, September 24, 2018 until 12:00 noon on Friday, September 28, 2018 (24 hours daily, except on Friday, September 28, 2018, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, September 28, 2018, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, September 28, 2018.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to section headed “Structure of the Global Offering – Determining the Offer Price”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, September 28, 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If the application lists do not open and close on Friday, September 28, 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, October 8, 2018 on our Company’s website at www.prinxchengshan.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.prinxchengshan.com and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m., on Monday, October 8, 2018;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, October 8, 2018 to 12:00 midnight on Sunday, October 14, 2018;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, October 8, 2018 to Thursday, October 11, 2018;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, October 8, 2018 to Wednesday, October 10, 2018 at all the receiving bank’s designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. For further details, please refer to “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR HONG KONG OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$7.50 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, October 8, 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque(s), if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund checks and Share certificates are expected to be posted on or before Monday, October 8, 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, October 9, 2018 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, October 8, 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, October 8, 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, October 8, 2018, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, October 8, 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Monday, October 8, 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, October 8, 2018, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund checks.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, October 8, 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iv) If you apply via electronic application instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, October 8, 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Monday, October 8, 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, October 8, 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, October 8, 2018. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, October 8, 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF PRINX CHENGSHAN (CAYMAN) HOLDING LIMITED (FORMERLY KNOWN AS PRINX (CAYMAN) HOLDINGS LIMITED) AND BOCI ASIA LIMITED

Introduction

We report on the historical financial information of Prinx Chengshan (Cayman) Holding Limited (formerly known as Prinx (Cayman) Holdings Limited) (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-84, which comprises the consolidated statements of financial position as at 31 December 2015, 2016 and 2017 and 31 March 2018, the company statements of financial position as at 31 December 2015, 2016 and 2017 and 31 March 2018, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years/period then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-84 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 24 September 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2015, 2016 and 2017 and 31 March 2018 and the consolidated financial position of the Group as at 31 December 2015, 2016 and 2017 and 31 March 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three months ended 31 March 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a

conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

24 September 2018

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of the accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所 (特殊普通合夥)) in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") except when otherwise indicated.

(A) Consolidated Statements of Profit or Loss

	Note	Year ended 31 December			Three months ended 31 March	
		2015	2016	2017	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Revenue	6	3,521,879	3,821,728	4,840,396	1,275,094	1,355,679
Cost of sales	9	(2,823,665)	(2,993,929)	(4,071,799)	(1,123,676)	(1,093,696)
Gross profit		698,214	827,799	768,597	151,418	261,983
Selling and distribution expenses	9	(265,863)	(295,772)	(320,952)	(85,071)	(71,007)
Administrative expenses	9	(71,880)	(72,762)	(82,085)	(18,421)	(27,840)
Research and development costs	9	(64,357)	(75,617)	(85,246)	(18,114)	(22,254)
Other income	7	18,150	19,194	21,458	4,622	5,582
Other gains/(losses) – net	8	35,609	12,152	(25,440)	(3,330)	(21,996)
Operating profit		349,873	414,994	276,332	31,104	124,468
Financial income	11	3,168	863	3,931	603	1,138
Financial expenses	11	(52,325)	(14,643)	(13,518)	(3,280)	(246)
Finance (costs)/ income – net	11	(49,157)	(13,780)	(9,587)	(2,677)	892
Losses from fair value change of convertible redeemable preferred shares	12	(4,591)	(55,032)	(56,727)	(3,009)	–
Profit before income tax		296,125	346,182	210,018	25,418	125,360
Income tax expense	13	(132,981)	(54,976)	(36,446)	(6,120)	(17,001)
Profit for the year/period		<u>163,144</u>	<u>291,206</u>	<u>173,572</u>	<u>19,298</u>	<u>108,359</u>
Profit attributable to:						
– Owner of the Company		163,144	291,206	173,698	19,298	108,435
– Non-controlling interests		–	–	(126)	–	(76)
		<u>163,144</u>	<u>291,206</u>	<u>173,572</u>	<u>19,298</u>	<u>108,359</u>
Earnings per share for profit attributable to owner of the Company for the year/period						
– Basic and diluted (RMB)	14	<u>0.37</u>	<u>0.67</u>	<u>0.40</u>	<u>0.04</u>	<u>0.22</u>

(B) Consolidated Statements of Comprehensive Income

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Profit for the year/period	163,144	291,206	173,572	19,298	108,359
Other comprehensive (loss)/income:					
<i>Item that may be reclassified subsequently to profit or loss</i>					
Currency translation differences	(70,678)	(19,039)	21,280	454	(804)
Other comprehensive (loss)/income for the year/period, net of tax	(70,678)	(19,039)	21,280	454	(804)
Total comprehensive income for the year/period	<u>92,466</u>	<u>272,167</u>	<u>194,852</u>	<u>19,752</u>	<u>107,555</u>
Attributable to:					
– Owner of the Company	92,466	272,167	194,978	19,752	107,631
– Non-controlling interests	–	–	(126)	–	(76)
Total comprehensive income for the year/period	<u>92,466</u>	<u>272,167</u>	<u>194,852</u>	<u>19,752</u>	<u>107,555</u>

(C) Consolidated Statements of Financial Position

	Note	As at 31 December			As at
		2015	2016	2017	31 March
		RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets					
Land use rights	17	105,825	101,575	107,766	106,807
Property, plant and equipment	18	1,311,416	1,205,550	1,133,826	1,134,370
Intangible assets	19	87,317	76,552	65,911	62,960
Prepayments for purchase of property, plant and equipment	25	2,333	1,522	19,395	6,142
		<u>1,506,891</u>	<u>1,385,199</u>	<u>1,326,898</u>	<u>1,310,279</u>
Current assets					
Inventories	22	607,710	625,670	687,203	597,029
Trade receivables	24	622,467	767,710	971,272	1,104,616
Prepayments and other receivables	25	20,251	8,082	32,948	42,819
Available-for-sale financial assets	21	91,600	110,620	130,000	–
Financial assets at fair value through profit or loss	23	–	–	–	346,358
Amounts due from related parties	39(b)	92,124	104,421	19,369	48,572
Cash and cash equivalents	26	154,425	709,914	687,998	441,766
Restricted cash	26	47,605	39,107	120,299	108,579
		<u>1,636,182</u>	<u>2,365,524</u>	<u>2,649,089</u>	<u>2,689,739</u>
Total assets		<u>3,143,073</u>	<u>3,750,723</u>	<u>3,975,987</u>	<u>4,000,018</u>
Equity and liabilities					
Equity attributable to owner of the Company					
Share capital	27	133	133	133	152
Share premium	27	1,230,275	1,202,809	1,112,569	1,487,169
Reserves	28	21,528	293,695	488,673	513,222
		<u>1,251,936</u>	<u>1,496,637</u>	<u>1,601,375</u>	<u>2,000,543</u>
Non-controlling interests		<u>–</u>	<u>–</u>	<u>(126)</u>	<u>(202)</u>
Total equity		<u>1,251,936</u>	<u>1,496,637</u>	<u>1,601,249</u>	<u>2,000,341</u>
Liabilities					
Non-current liabilities					
Bank borrowings	29	32,468	–	–	–
Financial liabilities at fair value through profit or loss	30	264,387	339,289	374,619	–
Deferred income	34	14,880	16,340	15,784	25,072
Deferred tax liabilities	35	19,874	14,553	10,554	7,381
		<u>331,609</u>	<u>370,182</u>	<u>400,957</u>	<u>32,453</u>
Current liabilities					
Trade payables	31	659,780	847,275	907,106	990,073
Other payables and accruals	32	332,079	400,468	379,707	362,158
Contract liabilities	5	–	–	–	36,354
Provision for warranties	33	77,088	82,865	87,405	87,936
Amounts due to related parties	39(b)	346,408	470,768	249,266	153,765
Current income tax liabilities		50,610	82,528	44,222	33,201
Bank borrowings	29	93,563	–	306,075	303,737
		<u>1,559,528</u>	<u>1,883,904</u>	<u>1,973,781</u>	<u>1,967,224</u>
Total liabilities		<u>1,891,137</u>	<u>2,254,086</u>	<u>2,374,738</u>	<u>1,999,677</u>
Total equity and liabilities		<u>3,143,073</u>	<u>3,750,723</u>	<u>3,975,987</u>	<u>4,000,018</u>
Net current assets		<u>76,654</u>	<u>481,620</u>	<u>675,308</u>	<u>722,515</u>
Total assets less current liabilities		<u>1,583,545</u>	<u>1,866,819</u>	<u>2,002,206</u>	<u>2,032,794</u>

(D) The Company Statements of Financial Position

	Note	As at 31 December			As at
		2015	2016	2017	31 March
		RMB'000	RMB'000	RMB'000	2018
				RMB'000	
Assets					
Non-current assets					
Interests in a subsidiary	16B	1,514,052	1,617,369	1,609,068	1,560,439
Current assets					
Cash and cash equivalents	26	76	71	46	39
Total assets		1,514,128	1,617,440	1,609,114	1,560,478
Equity					
Share capital	27	133	133	133	152
Share premium	27	1,230,275	1,202,809	1,112,569	1,487,169
Reserves	28	15,402	62,436	23,780	(21,165)
Total equity		1,245,810	1,265,378	1,136,482	1,466,156
Liabilities					
Non-current liabilities					
Financial liabilities at fair value through profit or loss	30	264,387	339,289	374,619	–
Current liabilities					
Amounts due to related parties	39(b)	3,931	12,773	98,013	94,322
Total liabilities		268,318	352,062	472,632	94,322
Total equity and liabilities		1,514,128	1,617,440	1,609,114	1,560,478
Net current liabilities		(3,855)	(12,702)	(97,967)	(94,283)
Total assets less current liabilities		1,510,197	1,604,667	1,511,101	1,466,156

(E) Consolidated Statements of Changes in Equity

	<i>Note</i>	Equity attributable to owner of the Company			
		Share	Share	Reserves	Total equity
		capital	premium		
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Note 27)</i>	<i>(Note 27)</i>	<i>(Note 28)</i>	
Balance at 1 January 2015		–	–	906,522	906,522
Comprehensive income					
Profit for the year		–	–	163,144	163,144
Other comprehensive loss					
Currency translation difference		–	–	(70,678)	(70,678)
Total other comprehensive loss, net of tax		–	–	(70,678)	(70,678)
Total comprehensive income		–	–	92,466	92,466
Transactions with owners					
Issuance of ordinary shares	<i>1.2(ii)</i>	133	1,230,275	–	1,230,408
Cash dividends	<i>15</i>	–	–	(485,025)	(485,025)
Deemed Distribution	<i>1.2(iv), (v)</i>	–	–	(492,435)	(492,435)
Total transactions with owners		133	1,230,275	(977,460)	252,948
Balance at 31 December 2015		133	1,230,275	21,528	1,251,936

		Equity attributable to owner of the Company			
Note	Share capital	Share premium	Reserves	Total equity	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	(Note 27)	(Note 27)	(Note 28)		
Balance at 1 January 2016	133	1,230,275	21,528	1,251,936	
Comprehensive income					
Profit for the year	-	-	291,206	291,206	
Other comprehensive loss					
Currency translation difference	-	-	(19,039)	(19,039)	
Total other comprehensive loss, net of tax	-	-	(19,039)	(19,039)	
Total comprehensive income	-	-	272,167	272,167	
Transactions with owners					
Cash dividends	15	(27,466)	-	(27,466)	
Total transactions with owners	-	(27,466)	-	(27,466)	
Balance at 31 December 2016	133	1,202,809	293,695	1,496,637	

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

		<u>Equity attributable to owner of the Company</u>					
	<i>Note</i>	<u>Share capital</u>	<u>Share premium</u>	<u>Reserves</u>	<u>Total</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Note 27)</i>	<i>(Note 27)</i>	<i>(Note 28)</i>			
Balance at 1 January 2018		133	1,112,569	488,673	1,601,375	(126)	1,601,249
Comprehensive income							
Profit for the year		–	–	108,435	108,435	(76)	108,359
Other comprehensive income							
Currency translation difference		–	–	(804)	(804)	–	(804)
Total other comprehensive income, net of tax		–	–	(804)	(804)	–	(804)
Total comprehensive income		–	–	107,631	107,631	(76)	107,555
Transactions with owners							
Conversion of preferred shares	27	19	374,600	–	374,619	–	374,619
Cash dividends	15	–	–	(83,082)	(83,082)	–	(83,082)
Total transactions with owners		19	374,600	(83,082)	291,537	–	291,537
Balance at 31 March 2018		152	1,487,169	513,222	2,000,543	(202)	2,000,341

		Equity attributable to owner of the Company			
	<i>Note</i>	Share capital	Share premium	Reserves	Total equity
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Note 27)</i>	<i>(Note 27)</i>	<i>(Note 28)</i>	
(Unaudited)					
Balance at 1 January 2017		133	1,202,809	293,695	1,496,637
Comprehensive income					
Profit for the year		–	–	19,298	19,298
Other comprehensive income					
Currency translation difference		–	–	454	454
Total other comprehensive income, net of tax		–	–	454	454
Total comprehensive income		–	–	19,752	19,752
Transactions with owners					
Cash dividends	15	–	(90,240)	–	(90,240)
Total transactions with owners		–	(90,240)	–	(90,240)
Balance at 31 March 2017		133	1,112,569	313,447	1,426,149

(F) Consolidated Statements of Cash Flows

	Note	Year ended 31 December			Three months ended 31 March	
		2015	2016	2017	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Cash flows from operating activities						
Cash generated from/(used in) operations	36(a)	843,388	728,013	260,734	(27,523)	254,399
Interest paid		(45,002)	(6,375)	(15,167)	(13,104)	(2,519)
Income tax paid		(82,200)	(28,736)	(65,493)	(28,269)	(30,933)
Net cash generated from/(used in) operating activities		716,186	692,902	180,074	(68,896)	220,947
Cash flows from investing activities						
Purchases of property, plant and equipment		(47,823)	(75,594)	(131,062)	(15,249)	(48,032)
Proceeds from disposal of property, plant and equipment	36(b)	7,613	153	462	256	81
Purchase of land use rights		–	–	(10,381)	–	–
Purchase of intangible assets		(999)	–	(706)	–	–
Loans granted to a related party		(300)	(3,859)	–	–	–
Repayment of loans granted to a related party		35,450	–	79,999	60,000	–
Purchase of available-for-sale financial assets	21	(5,011,101)	(1,046,100)	(1,225,081)	(385,081)	–
Proceeds from disposal of available-for-sale financial assets	21	5,202,908	1,030,495	1,208,697	449,261	–
Purchase of financial assets at fair value through profit or loss	23	–	(3,011,163)	(353,352)	(20,367)	(1,219,710)
Proceeds from disposal of financial assets at fair value through profit or loss	23	–	3,012,882	353,726	–	1,003,008
Acquisition of a subsidiary, net of cash and cash equivalents	38	–	–	–	–	27,042
Disposal of a subsidiary, net of cash and cash equivalents	38	–	–	–	–	(53,759)
Interest received		3,168	863	3,931	603	1,138
Net cash generated from/(used in) investing activities		188,916	(92,323)	(73,767)	89,423	(290,232)
Cash flows from financing activities						
Proceeds from borrowings		170,120	60,000	340,943	–	–
Repayments of borrowings		(1,084,089)	(185,709)	(32,972)	–	–
Increase in restricted cash pledged as security for bank borrowings		–	–	(85,342)	–	–
Loans from related parties		71,411	86,571	–	–	–
Repayments of loans from related parties		(592,649)	(101)	(318,569)	(311,297)	(100,673)
Payment of listing expenses		–	–	(1,275)	–	(2,398)
Capital injection by shareholders	27	1,230,408	–	–	–	–
Amounts due to non-controlling interests		–	–	–	–	23,654
Proceeds from issuance of preferred shares	30	253,980	–	–	–	–
Cash dividends paid	15	(485,025)	(27,466)	–	–	(83,974)
Deemed distribution	1.2(iii), (iv)	(492,435)	–	–	–	–
Net cash used in financing activities		(928,279)	(66,705)	(97,215)	(311,297)	(163,391)
Net (decrease)/increase in cash and cash equivalents						
Cash and cash equivalents at the beginning of year/period	26	173,846	154,425	709,914	709,914	687,998
Exchange gain/(loss) on cash and cash equivalents		3,756	21,615	(31,008)	(2,298)	(13,556)
Cash and cash equivalents at the end of year/period	26	<u>154,425</u>	<u>709,914</u>	<u>687,998</u>	<u>416,846</u>	<u>441,766</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS PRESENTATION

1.1 General information

Prinx Chengshan (Cayman) Holding Limited (formerly known as Prinx (Cayman) Holdings Limited) (the "Company") was incorporated in Cayman Islands on 22 May 2015 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Harbour Place, 2nd Floor, 103 South Church Street, PO Box 472, George Town, Grand Cayman KY1-1106, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together "the Group") are principally engaged in the manufacturing and sales of rubber products in the People's Republic of China (the "PRC"), America, Asia and other global markets (the "Listing Business").

The Listing Business was primarily carried out by Prinx Investment Limited ("Prinx Investment") and Prinx Chengshan (Shandong) Tire Co., Ltd. (collectively the "Operating Companies"). The immediate holding company of the Group is Chengshan Group Co., Ltd. ("Chengshan Group"), which is ultimately held as to 74.64% 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.

1.2 Reorganisation

On 10 November 2014, Prinx Investment acquired 65% equity interest in Prinx Chengshan (Shandong) Tire Co., Ltd. from Cooper Tire Investment Holding (Barbados) Ltd. at a consideration of USD274,764,847 (equivalent to approximately RMB1,683,103,695), as a result of which Prinx Investment and Chengshan Group held 65% and 35% equity interest in Prinx Chengshan (Shandong) Tire Co., Ltd., respectively.

The Reorganization steps undertaken during the Track Record Period are as follows:

(i) Incorporation of the Company

The Company was incorporated by Chengshan Group in the Cayman Islands with limited liability on 22 May 2015. It is an investment holding company and also the holding company of its subsidiaries. As at the date of incorporation, it had an authorised share capital of USD50,000. On the date of incorporation, one share was issued at par value to an independent third party who transferred such share to Chengshan Group on 23 June 2015 at par.

(ii) Subscription of 436,599,999 ordinary Shares in the Company by Chengshan Group

On 21 July 2015, Chengshan Group subscribed 436,599,999 ordinary shares in the Company at a consideration of USD193,195,000 (equivalent to approximately RMB1,230,275,000). The said subscription was completed on 29 October 2015. After such share subscription, approximately 87.3% equity interest in the Company was held by Chengshan Group.

(iii) Subscription of 63,400,000 series A preferred shares in the Company by Sinotruk (Hong Kong) Capital Holding Limited ("Sinotruk Capital")

On 21 July 2015, Sinotruk Capital subscribed for 63,400,000 series A preferred shares in the Company, at a consideration of US\$40,000,000. The said subscription was completed on 29 October 2015. After such share subscription, approximately 12.68% equity interest in the Company was held by Sinotruk Capital.

(iv) Transfer of 35% equity interest in Prinx Chengshan (Shandong) Tire Co., Ltd. from Chengshan Group to Prinx Investment

On 9 September 2015, Prinx Investment, as transferee, and Chengshan Group, as transferor, entered into a share transfer agreement for the transfer of 35% of the equity interest in Prinx Chengshan (Shandong) Tire Co., Ltd. at a consideration of USD77.0 million (equivalent to approximately RMB491,976,116). Chengshan Group transferred its 35% equity interest in Prinx Chengshan (Shandong) Tire Co., Ltd. to Prinx Investment. The said transfer was completed on 12 October 2015. After such transfer, Prinx Chengshan (Shandong) Tire Co., Ltd. was wholly owned by Prinx Investment.

(v) *Transfer of the entire equity interest in Prinx Investment from Chengshan Trade (Hong Kong) Limited to the Company*

On 8 September 2015, the Company, as transferee, and Chengshan Trade (Hong Kong) Limited (“Chengshan Trade”), a wholly owned subsidiary of Chengshan Group and as transferor, entered into a share transfer agreement for the transfer of the entire equity interest in Prinx Investment at a consideration of USD75,000 (equivalent to approximately RMB458,925). On 12 October 2015, Chengshan Trade transferred its 100% equity interests in Prinx Investment to the Company. The said transfer was completed on 12 October 2015. After such transfer, Prinx Investment was wholly owned by the Company.

After the completion of the Reorganisation steps as described above, the Company became the holding company of the Group.

Upon completion of the Reorganisation and as at the date of this report, the Group has directly and indirectly interest in the following subsidiaries:

Name of companies	Date of incorporation	Country/Place of incorporation, legal status	Registered/paid-up share capital	Proportion of ownership interest				Principal activities	Note
				31 December 2015	31 December 2016	31 December 2017	31 March 2018		
Directly held by the Company									
Prinx Investment	06 June 2014	Hong Kong, limited liability company	USD75,000/ USD75,000	100%	100%	100%	100%	Investment holding and trading of rubber products	(ii)
Indirectly held by the Company									
Prinx Chengshan (Shandong) Tire Co., Ltd.	29 December 2005	Shandong China, limited liability company	USD76,800,000/ USD76,800,000	100%	100%	100%	100%	Manufacturing and trading of rubber products	(iii)
Prinx Chengshan Europe, s.r.o.	13 May 2016	Slovakia, limited liability company	EUR400,000/ EUR400,000	N/A	100%	100%	100%	Investment holding and trading of inflatable products and related products	(i)
Prinx Chengshan (Qingdao) Industrial Research & Design Co., Ltd.	12 January 2017	Shandong China, limited liability company	RMB10,000,000/ RMB9,993,476	N/A	N/A	100%	100%	Technology Research and trading of rubber products	(i)
Shandong Prinx Chengshan Tire Technology Research Co., Ltd.	26 September 2017	Shandong China, limited liability company	RMB10,000,000/ RMB1,500,000	N/A	N/A	92.5%	92.5%	Tire technology and equipment research and development, providing technical services	(i)
Qingdao Zhianda Investment Co., Ltd.	8 March 2018	Shandong China, limited liability company	RMB76,800,000/ RMB0	N/A	N/A	N/A	100%	Investment holding and trading of rubber products	(i)

Notes:

- (i) No audited financial statements were prepared for those subsidiaries as it is not required to issue audited financial statements under the local statutory requirements.
- (ii) This company's financial statements including statutory financial statements for the years ended 31 December 2015, 2016 and 2017, where appropriate, were audited by PricewaterhouseCoopers Hong Kong.
- (iii) This company's financial statements including statutory financial statements for the years ended 31 December 2015, 2016 and 2017, where appropriate, were audited by PricewaterhouseCoopers Zhong Tian LLP.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business has been and continues to be conducted by the Operating Companies. Pursuant to the Reorganisation, the Listing Business was transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business conducted through the Operating Companies and, for the purpose of this report, the Historical Financial Information has been prepared and presented with the results, assets and liabilities recognised and measured at the then carrying amounts of the Listing Business under the consolidated financial statements for all periods presented.

Inter-company transaction, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss.

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

2.1.1 New standards and interpretations not yet adopted

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

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

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

IFRS 16, Leases

Nature of change

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

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 March 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately RMB25.7 million, among which less than one year is RMB9.6 million and more than one year and less than five years is RMB16.1 million. HKFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortization and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognised in the statement of financial position as right of use assets and lease liabilities.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. Management expects the adoption should have no material impact to the Group.

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

2.1.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") on the Group's financial information and the new accounting policies as disclosed in Note 2.9 and Note 2.24 that have been applied from 1 January 2018, where they are different to those applied in prior periods.

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

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

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

(a) Classification and measurement of financial instruments

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

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

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

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

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

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

2.2 Subsidiaries**2.2.1 Consolidation**

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

(a) *Business combination*

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency.

(b) *Transactions and balances*

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

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

(c) *Group companies*

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

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

2.5 Land use rights

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

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2.7 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.2.1(a) and Note 2.8. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(b) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 5-10 years based on the expected use in future operating plan.

(c) Contractual customer relationships

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

(d) Computer software

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

2.8 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

2.9.1 Classification

For the year ended 31 December 2015, 2016 and 2017

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

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

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

(b) Receivables

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

(c) Available-for-sale financial assets

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

For the period ended 31 March 2018

The Group classifies its financial assets in the following measurement categories:

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

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

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

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

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

2.9.2 Recognition and measurement

For the year ended 31 December 2015, 2016 and 2017

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

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

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

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

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

For the period ended 31 March 2018

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

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

Debt instruments

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.
- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and

recognized in other gains/(losses) – net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses and impairment expenses are presented in other gains/(losses) – net.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within other losses/gains, net in the period in which it arises.

Equity instruments

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

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

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

For the year ended 31 December 2015, 2016 and 2017

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

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

For the period ended 31 March 2018

The Group has types of financial assets subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of goods or provision of services; and
- other receivables

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

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

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.11 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

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

2.15 Share capital

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

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

2.16 Trade and other payables

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

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of profit or loss over the period of the borrowings using the effective interest method.

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

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

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

2.18 Borrowing costs

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

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

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

2.19 Convertible redeemable preferred shares

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

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

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

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

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

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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

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

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

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

2.21 Employee benefits

(a) Pension obligations

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

(b) Other employee benefits

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

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

2.22 Provision

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

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

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

2.23 Government assistance and grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised as other income in the consolidated statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.24 Revenue recognition

For the year ended 31 December 2015, 2016 and 2017

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and returns. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific

criteria have been met for the Group's activity as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Sales of products

Revenue from the sales of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

For the period ended 31 March 2018

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

Sales of products

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

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

2.25 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.26 Operating leases

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

2.27 Research and development costs

Research costs are expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

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

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

2.28 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

Exchange rate fluctuations and market trends have always been the concern of the Group. The Group and the Company may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the Track Record Period, the Group entered into currency swap contracts to mitigate the foreign exchange risk.

As at 31 December 2015, 2016, 2017 and 31 March 2018, if USD had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax profit for each year/period would have changed mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalent, trade receivables, trade payables and bank borrowings in RMB functional currency subsidiaries. Details of the changes are as follows:

	Year ended 31 December			Three months ended 31 March
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Year/period ended:				
Post-tax profit (decrease)/increase				
– Weakened 5% against RMB	<u>(5,203)</u>	<u>(37,116)</u>	<u>(30,748)</u>	<u>(27,509)</u>
– Strengthened 5% against RMB	<u>5,203</u>	<u>37,116</u>	<u>30,748</u>	<u>27,509</u>

As at 31 December 2015, 2016 and 2017 and 31 March 2018, if USD had weakened/strengthened by 5% against RMB, with all other variables held constant, other comprehensive income for each year/period would have changed mainly as a result of the translation of financial statements of USD functional currency subsidiaries to RMB. Details of the changes are as follows:

	Year ended 31 December			Three months ended 31 March
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Year/period ended:				
Other comprehensive income increase/(decrease)				
– Weakened 5% against RMB	28,670	34,327	16,610	(7,862)
– Strengthened 5% against RMB	(28,670)	(34,327)	(16,610)	7,862

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

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

As at 31 December 2015, if interest rates on bank borrowings, which had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been approximately RMB0.32 million lower/higher mainly as a result of higher/lower interest expense on bank borrowings with floating rate. As at 31 December 2016 and 2017 and 31 March 2018, the Group has no bank borrowings with floating rate.

(b) *Credit risk*

For the year ended 31 December 2015, 2016 and 2017

Credit risk arises from pledged bank deposits, cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash at banks, bank deposits are placed with highly reputable financial institutions. See Note 20b for further disclosure on credit risk.

The Group's trade receivables at the end of each reporting period were mainly due from customers. For trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

For the period ended 31 March 2018

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

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group has large number of customers and there was no concentration of credit risk. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant increases in credit risk on other financial instruments of the same customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the group and changes in the operating results of the customer.

(i) *Amounts due from related parties*

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

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

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

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

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

(ii) *Trade and other receivables*

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

As at 31 March 2018, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance provision for other receivables was recognised during the Track Record Period.

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

	<u>Current</u>	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>Over 3 years</u>	<u>Total</u>
31 March 2018						
Expected loss rate	0.2%	1%	20%	50%	100%	–
Gross carrying amount (RMB'000)	852,646	247,280	8,952	3,921	4,235	1,117,034
Loss allowance provision (RMB'000)	<u>(1,959)</u>	<u>(2,473)</u>	<u>(1,790)</u>	<u>(1,961)</u>	<u>(4,235)</u>	<u>(12,418)</u>

(c) *Liquidity risk*

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

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

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Over 2 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2015				
Bank borrowings	93,563	32,468	–	126,031
Financial liabilities at fair value through profit or loss	–	–	264,387	264,387
Interest payables for bank borrowings	2,120	200	–	2,320
Amount due to related parties	346,408	–	–	346,408
Trade payables	659,780	–	–	659,780
Other payables	211,408	–	–	211,408
	<u>1,313,279</u>	<u>32,668</u>	<u>264,387</u>	<u>1,610,334</u>

	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2016				
Financial liabilities at fair value through profit or loss	–	–	339,289	339,289
Amount due to related parties	470,768	–	–	470,768
Trade payables	847,275	–	–	847,275
Other payables	204,442	–	–	204,442
	<u>1,522,485</u>	<u>–</u>	<u>339,289</u>	<u>1,861,774</u>
At 31 December 2017				
Bank borrowings	306,075	–	–	306,075
Financial liabilities at fair value through profit or loss	–	374,619	–	374,619
Interest payables for bank borrowings	7,318	–	–	7,318
Amount due to related parties	249,266	–	–	249,266
Trade payables	907,106	–	–	907,106
Other payables	187,624	–	–	187,624
	<u>1,657,389</u>	<u>374,619</u>	<u>–</u>	<u>2,032,008</u>
At 31 March 2018				
Bank borrowings	303,737	–	–	303,737
Interest payables for bank borrowings	4,766	–	–	4,766
Amount due to related parties	153,765	–	–	153,765
Trade payables	990,073	–	–	990,073
Other payables	223,702	–	–	223,702
	<u>1,676,043</u>	<u>–</u>	<u>–</u>	<u>1,676,043</u>

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Group monitors on the basis of the gearing ratio. This ratio is calculated as net surplus/debt divided by total capital. Net surplus/debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statements of financial positions) less cash and cash equivalents and restricted cash. Total capital is calculated as equity plus convertible redeemable preferred shares on an as-if converted basis, which is total equity and fair value liabilities at fair value through profit or loss as shown in the consolidated statements of financial position and net surplus/debt.

The gearing ratios as at 31 December 2015, 2016 and 2017 and 31 March 2018 were as follows:

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Bank borrowings (Note 29)	126,031	–	306,075	303,737
Less: Cash and cash equivalents (Note 26)	(154,425)	(709,914)	(687,998)	(441,766)
Restricted cash (Note 26)	(47,605)	(39,107)	(120,299)	(108,579)
Net Surplus	(75,999)	(749,021)	(502,222)	(246,608)
Financial liabilities at fair value through profit or loss	264,387	339,289	374,619	–
Total equity	1,251,936	1,496,637	1,601,249	2,000,341
Total capital	1,440,324	1,086,905	1,473,646	1,753,733
Gearing ratio	Not meaningful	Not meaningful	Not meaningful	Not meaningful

3.3 Fair value estimation

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

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2015, 2016 and 2017 and 31 March 2018.

	Level 1	Level 2	Level 3	Total
As at 31 December 2015				
Assets				
Available-for-sale financial assets wealth management product (a)	–	–	91,600	91,600
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	264,387	264,387

	Level 1	Level 2	Level 3	Total
As at 31 December 2016				
Assets				
Available-for-sale financial assets wealth management product (a)	–	–	110,620	110,620
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	339,289	339,289
As at 31 December 2017				
Assets				
Available-for-sale financial assets wealth management product (a)	–	–	130,000	130,000
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	374,619	374,619
As at 31 March 2018				
Assets				
Financial assets at fair value through profit or loss				
– Wealth management product (a)	–	–	199,340	199,340
– Currency Swaps (b)	–	147,018	–	147,018
	–	147,018	199,340	346,358

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

(a) Financial instruments in level 3

See Note 21, Note 23 and Note 30 for disclosures of the changes in level 3 instruments for the year ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2018.

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

	Fair value at 31 December 2015	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
	<i>RMB'000</i>			
Wealth management product	91,600	Expected yield rate	1.7% – 4.5% (3.1%)	A change in the yield rate by 100 basis points would increase/decrease the fair value by approximately RMB888,000.

	Fair value at 31 December 2015	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
	<i>RMB'000</i>			
Convertible redeemable preferred shares	264,387	Discount rate	14%	A change in the discount rate by 50 basis points would increase/decrease the fair value by approximately RMB11.0 million/RMB10.0 million.
		Sales growth rate	9.1% – 11.2% (10.2%)	A change in the sales growth rate by 100 basis points would increase/decrease the fair value by approximately RMB6.7 million.
	Fair value at 31 December 2016			
	<i>RMB'000</i>			
Wealth management product	110,620	Expected yield rate	1.7% – 4.2% (3.0%)	A change in the yield rate by 100 basis points would increase/decrease the fair value by approximately RMB1,079,000.
Convertible redeemable preferred shares	339,289	Discount rate	15%	A change in the discount rate by 50 basis points would increase/decrease the fair value by approximately RMB23.3 million/RMB21.0 million.
		Sales growth rate	12.3% – 21.8% (17.1%)	A change in the sales growth rate by 100 basis points would increase/decrease the fair value by approximately RMB9.6 million.

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

	Fair value at 31 March 2018	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
	<i>RMB'000</i>			
Wealth management product	199,340	Expected yield rate	2.0% – 4.8% (3.4%)	A change in the yield rate by 100 basis points would increase/decrease the fair value by approximately RMB1,893,000.

(b) Financial instruments in level 2

See Note 23 for disclosures of the changes in level 2 instruments for the year ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2018.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Useful lives of property, plant and equipment

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

(b) Income taxes and deferred tax assets/liabilities

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

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

(c) Provision for impairment of trade receivables

For trade receivables (excluding non-financial assets), the Group applies the simplified approach to provide for expected credit losses as prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables (excluding non-financial assets). No further provision has been recognised in retained earnings as at 1 January 2018 for those trade receivables (excluding non-financial assets) whose credit risk has been assessed as low, and the adoption of the new impairment methodology as described in Note 3.1(b) only results in an insignificant incremental amount of provision to be made.

(d) Net realisable value of inventories

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

(e) Warranty claims provision

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

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

5 SEGMENT INFORMATION

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

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

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

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	Revenue	Revenue	Revenue	Revenue	Revenue
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Mainland China	1,909,155	2,167,015	2,846,566	812,813	831,780
Americas	717,374	779,021	855,647	198,233	236,737
Asia (excluding Mainland China)	465,572	418,217	387,419	83,538	110,593
Middle East	161,731	222,706	266,955	76,275	49,049
Africa	148,175	153,687	285,197	61,240	73,616
Other countries	119,872	81,082	198,612	42,995	53,904
	<u>3,521,879</u>	<u>3,821,728</u>	<u>4,840,396</u>	<u>1,275,094</u>	<u>1,355,679</u>

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

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China	1,417,214	1,306,648	1,240,933	1,240,471
Europe	–	424	625	674
Hong Kong	27	53	34	32
	<u>1,417,241</u>	<u>1,307,125</u>	<u>1,241,592</u>	<u>1,241,177</u>

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

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	Revenue	Revenue	Revenue	Revenue	Revenue
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Customer A	<u>739,996</u>	<u>784,295</u>	<u>715,863</u>	<u>201,503</u>	<u>180,782</u>

Revenue recognised in relation to contract liabilities.

	As at
	31 March 2018
	<i>RMB'000</i>
Contract liabilities	<u>36,354</u>

(i) Significant change in contract liabilities

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

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the three months ended 31 March 2018 relates to carried-forward contract liabilities.

	Three months
	ended
	31 March 2018
	<i>RMB'000</i>
Revenue recognised that was included in the contract liabilities balance at the 1 January 2018	
Sales of rubber products	<u>47,253</u>

(iii) Unsatisfied contracts related to sales of rubber products

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

6 REVENUE

	Year ended 31 December			Three months ended	
	2015	2016	2017	31 March	2018
	Revenue	Revenue	Revenue	Revenue	Revenue
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from customer and recognised at point in time					
Sales of rubber products:					
– All steel radial tires	2,647,683	2,930,728	3,692,706	987,604	1,064,511
– Semi-steel radial tires	654,419	674,707	940,145	218,079	259,397
– Bias tires	219,777	216,293	207,545	69,411	31,771
	<u>3,521,879</u>	<u>3,821,728</u>	<u>4,840,396</u>	<u>1,275,094</u>	<u>1,355,679</u>

(Unaudited)

7 OTHER INCOME

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Sales of raw materials and scraps	12,500	11,881	17,884	3,579	4,936
Government grants	5,650	7,313	3,574	1,043	646
	<u>18,150</u>	<u>19,194</u>	<u>21,458</u>	<u>4,622</u>	<u>5,582</u>

8 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Gains on disposal of available-for-sale financial assets	11,407	3,415	2,996	1,071	–
Gains/(losses) on disposal of financial assets at fair value through profit or loss (<i>Note</i>)	–	1,719	374	–	(2,654)
(Losses)/gains from fair value change of financial assets at fair value through profit or loss	–	–	–	(93)	2,310
Gains/(losses) on disposal of property, plant and equipment (<i>Note 36(b)</i>)	1,468	(2,149)	(766)	51	(347)
Net other foreign exchange gains/(losses)	21,248	8,285	(27,326)	(4,904)	(22,777)
Others	1,486	882	(718)	545	1,472
	<u>35,609</u>	<u>12,152</u>	<u>(25,440)</u>	<u>(3,330)</u>	<u>(21,996)</u>

Note: The gains on disposal of financial assets at fair value through profit or loss mainly derived from the trading of derivative financial instruments.

9 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and research and development costs are analysed as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Raw materials and consumables used	2,248,734	2,570,014	3,585,875	990,614	844,206
Change in inventories of finished goods and work in progress	114,351	(73,579)	(20,178)	9,245	117,198
Wages and salaries, social welfare and benefits, including director's emoluments (Note 10)	279,576	314,566	356,148	83,103	95,141
Depreciation (Note 18)	186,578	187,326	185,329	46,851	46,819
Amortisation (Note 17, 19)	17,567	16,059	15,984	4,005	3,910
Transportation cost	93,285	114,368	128,966	35,141	30,436
Provisions for warranty claims (Note 33)	53,673	65,647	75,832	20,241	13,694
Other levies	42,358	40,468	29,006	10,165	9,487
Maintenance and repair	34,872	33,242	29,809	5,533	5,825
Travel and office expenses	30,135	32,293	28,349	8,405	5,957
Service fees and commissions	8,105	10,275	9,146	2,094	2,698
Storage expenses	20,273	17,911	19,182	5,074	4,904
Export expenses	18,102	18,533	25,461	5,461	6,730
Conference expenses	7,269	4,729	954	105	249
Provision for write-down of inventories (Note 22)	1,478	1,322	2,383	–	130
Bank charge	1,284	908	1,604	319	725
Rental and estate expenses	13,501	13,589	13,568	3,350	3,174
Consulting fees	184	176	47	–	6
Auditors' remuneration	667	745	794	–	–
Provision for/(reversal of) impairment of trade receivables (Note 24)	273	(73)	720	307	844
Listing expenses	–	–	4,848	–	6,948
Other expenses	53,500	69,561	66,255	15,269	15,716
	<u>3,225,765</u>	<u>3,438,080</u>	<u>4,560,082</u>	<u>1,245,282</u>	<u>1,214,797</u>

10 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTOR'S EMOLUMENTS

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, wages and bonuses	226,697	260,618	296,844	68,221	76,795
Pension, housing fund, medical insurance and other welfare benefits	52,879	53,948	59,304	14,882	18,346
Total employee benefit expenses	<u>279,576</u>	<u>314,566</u>	<u>356,148</u>	<u>83,103</u>	<u>95,141</u>

(a) Pension costs – defined contribution plans

The employees of the Group's subsidiaries established in the Mainland China participate in defined contribution retirement benefit plans organised by the relevant provincial governments under which these subsidiaries are required to make monthly contributions to these plans at certain percentages of the employees' monthly salaries and wages, subject to certain ceilings. The non-PRC employees also participate in various defined contribution pension plans according to relevant local requirements.

(b) Benefits and interests of directors

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

For the year ended 31 December 2015

Name of Director	Fees	Salaries and bonus	Pension, housing fund, medical insurance and other welfare benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Che Hongzhi	–	–	–	–
Che Baozheng	182	72	10	264
Shi Futao	162	1,100	79	1,341
Xiao Qian	–	1,685	60	1,745
Chen Yansheng	–	–	–	–
	<u>344</u>	<u>2,857</u>	<u>149</u>	<u>3,350</u>

For the year ended 31 December 2016

<u>Name of Director</u>	<u>Fees</u>	<u>Salaries and bonus</u>	<u>Pension, housing fund, medical insurance and other welfare benefits</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors				
Che Hongzhi	–	–	–	–
Che Baozheng	299	915	76	1,290
Shi Futao	172	1,168	77	1,417
Xiao Qian	–	1,789	61	1,850
Chen Yansheng	–	–	–	–
	<u>471</u>	<u>3,872</u>	<u>214</u>	<u>4,557</u>

For the year ended 31 December 2017

<u>Name of Director</u>	<u>Fees</u>	<u>Salaries and bonus</u>	<u>Pension, housing fund, medical insurance and other welfare benefits</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors				
Che Hongzhi	59	–	–	59
Che Baozheng	300	1,246	80	1,626
Shi Futao	173	1,075	79	1,327
Xiao Qian	81	367	16	464
Wang Lei	–	–	–	–
Chen Yansheng	–	–	–	–
	<u>613</u>	<u>2,688</u>	<u>175</u>	<u>3,476</u>

For the three months ended 31 March 2017

(Unaudited)

<u>Name of Director</u>	<u>Fees</u>	<u>Salaries and bonus</u>	<u>Pension, housing fund, medical insurance and other welfare benefits</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors				
Che Hongzhi	–	–	–	–
Che Baozheng	81	245	19	345
Shi Futao	47	269	19	335
Xiao Qian	62	334	17	413
Chen Yansheng	–	–	–	–
	<u>190</u>	<u>848</u>	<u>55</u>	<u>1,093</u>

For the three months ended 31 March 2018

Name of Director	Fees	Salaries and bonus	Pension, housing fund, medical insurance and other welfare benefits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors				
Che Hongzhi	58	–	2	60
Che Baozheng	75	422	20	517
Shi Futao	43	319	20	382
Wang Lei	–	–	–	–
Chen Yansheng	–	–	–	–
Cao Xueyu	2	–	–	2
	<u>178</u>	<u>741</u>	<u>42</u>	<u>961</u>

(c) Directors' retirement benefits

There were no retirement benefits paid to any director during the Track Record Period.

(d) Directors' termination benefits

There were no termination benefits paid to any director during the Track Record Period.

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

During the Track Record Period, the Company provided no consideration to third parties for making available director's services.

(f) Information about loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at 31 December 2015, 2016 and 2017 and 31 March 2018, or at any time during the Track Record Period.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2015, 2016 and 2017 and 31 March 2018, or at any time during the Track Record Period.

Zhang Xuehuo, Choi Tze Kit and Wang Chuansheng were appointed as the Company's independent non-executive directors on 10 September 2018. During the Track Record Period, the independent non-executive directors were not yet appointed and did not receive any remuneration.

(h) Five highest paid individuals

The five highest paid employees of the Group during the years ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2017 and 2018 include 2, 3, 2, 3 and 2 directors, respectively, details of whose emoluments are reflected in the analysis shown in Note 10(b). Details of the total emoluments paid to the remaining 3, 2, 3, 2 and 3 highest paid employees, respectively, during the Track Record Period were as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, wages and bonuses	4,854	5,805	4,829	1,436	1,528
Pension, housing fund, medical insurance and other welfare benefits	230	276	249	74	73
Total employee benefit expense	<u>5,084</u>	<u>6,081</u>	<u>5,078</u>	<u>1,510</u>	<u>1,601</u>

The number of highest paid non-director individuals, whose remuneration for the Track Record Period fell within the following bands:

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
				(Unaudited)	
Emolument bands					
Within RMB1,000,000	<u>3</u>	<u>2</u>	<u>3</u>	<u>2</u>	<u>3</u>

11 FINANCE (COSTS)/INCOME – NET

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Finance costs:					
– Interest expense on convertible redeemable preferred shares	(3,931)	(12,773)	(13,104)	(3,280)	–
– Interest expense on bank borrowings	(40,815)	(2,193)	(2,310)	–	(2,584)
– Foreign exchange (losses)/gains on financing activities	(7,579)	323	1,896	–	2,338
	<u>(52,325)</u>	<u>(14,643)</u>	<u>(13,518)</u>	<u>(3,280)</u>	<u>(246)</u>
Finance income:					
– Interest income derived from bank deposits	3,168	863	3,931	603	1,138
Finance (costs)/income – net	<u>(49,157)</u>	<u>(13,780)</u>	<u>(9,587)</u>	<u>(2,677)</u>	<u>892</u>

12 LOSSES FROM FAIR VALUE CHANGE OF CONVERTIBLE REDEEMABLE PREFERRED SHARES

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Fair value change of convertible redeemable preferred shares	<u>(4,591)</u>	<u>(55,032)</u>	<u>(56,727)</u>	<u>(3,009)</u>	<u>–</u>

13 INCOME TAX EXPENSE

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

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Current income tax	136,405	60,297	40,445	9,448	20,174
Deferred income tax (Note 35)	<u>(3,424)</u>	<u>(5,321)</u>	<u>(3,999)</u>	<u>(3,328)</u>	<u>(3,173)</u>
Income tax expenses	<u>132,981</u>	<u>54,976</u>	<u>36,446</u>	<u>6,120</u>	<u>17,001</u>

(i) Cayman Islands profit tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) Hong Kong profits tax

The Company's subsidiary, Prinx Investment, is subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% during the Track Record Period.

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

CIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable CIT tax rate is 25% except for a subsidiary which is qualified as High and New Technology Enterprises ("HNTE") and entitled to enjoy a beneficial tax rate of 15% from 2014 to 2019.

(iv) Overseas profits tax

Overseas profits tax has been provided at the rates of taxation prevailing in the countries in which the Group operates, with the range from 21% to 22%, during the Track Record Period.

(v) PRC withholding tax ("WHT")

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

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate to profits of the consolidated entities as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	296,125	346,182	210,018	25,418	125,360
Tax calculated at applicable tax rates	75,867	101,764	65,777	7,168	30,791
Income not subject to profits tax	(1,347)	–	–	–	–
Expenses not deductible for tax purpose	3,871	64	594	32	310
Tax benefit from HNTE qualification	(32,419)	(41,267)	(25,870)	(2,773)	(12,302)
Additional deduction of research and development cost and other expense	(2,827)	(5,585)	(7,173)	(1,425)	(1,798)
Provision for WHT on dividends from subsidiaries	89,836	–	3,118	3,118	–
Tax charge	<u>132,981</u>	<u>54,976</u>	<u>36,446</u>	<u>6,120</u>	<u>17,001</u>

14 EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, ordinary shares were assumed to have issued and allocated on 1 January 2015 as if the Company has been established and the Reorganisation has been completed by then. Basic earnings per share is calculated by dividing the net profit attributable to the owner of the Company by the weighted average number of ordinary shares in issue for each year during the Track Record Period. The diluted earnings per share are the same as the basic earnings per share since the convertible redeemable preferred shares would have an anti-dilutive effect during the Track Record Period.

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit attributable to the owner of the Company	163,144	291,206	173,698	19,298	108,435
Weighted average number of ordinary shares in issue (thousands)	436,600	436,600	436,600	436,600	500,000
Basic and diluted earnings per share (RMB)	<u>0.37</u>	<u>0.67</u>	<u>0.40</u>	<u>0.04</u>	<u>0.22</u>

15 DIVIDENDS

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Cash dividends declared by the Company	485,025	27,466	90,240	90,240	83,082

Dividend during each of the years ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2017 and 2018 represented dividends declared by the Company to its equity holders.

16A SUBSIDIARIES

The investments in subsidiaries are stated at cost, less impairment if any. The following sets out the details of the principal subsidiaries of the Company as at 31 December 2015, 2016 and 2017 and 31 March 2018:

Company name	Date of incorporation	Country/Place of incorporation, legal status	Registered share capital	Paid-in share capital	Directly and indirectly held			31 March 2018	Principal activities	Note
					31 December 2015	31 December 2016	31 December 2017			
Directly held by the Company										
Prinx Investment	06 June 2014	Hong Kong, limited liability company	USD75,000	USD75,000	100%	100%	100%	100%	Investment holding and trading of rubber products	(ii)
Indirectly held by the Company										
Prinx Chengshan (Shandong) Tire Co., Ltd.	29 December 2005	Shandong China, limited liability company	USD76,800,000	USD76,800,000	100%	100%	100%	100%	Manufacturing and trading of rubber products	(iii)
Prinx Chengshan Europe, s.r.o.	13 May 2016	Slovakia, limited liability company	EUR 400,000	EUR 400,000	N/A	100%	100%	100%	Investment holding and trading of inflatable products and related products	(i)
Prinx Chengshan (Qingdao) Industrial Research & Design Co., Ltd.	12 January 2017	Shandong China, limited liability company	RMB10,000,000	RMB9,993,476	N/A	N/A	100%	100%	Technology Research and trading of rubber products	(i)
Shandong Prinx Chengshan Tire Technology Research Co., Ltd.	26 September 2017	Shandong China, limited liability company	RMB10,000,000	RMB1,500,000	N/A	N/A	92.5%	92.5%	Tire technology and equipment research and development, providing technical service	(i), (iv)
Qingdao Zhianda Investment Co., Ltd.	8 March 2018	Shandong China, limited liability company	RMB76,800,000	RMB0	N/A	N/A	N/A	100%	Investment holding and trading of rubber products	(i)

- (i) No audited financial statements were prepared for those subsidiaries as it is not required to issue audited financial statements under the local statutory requirements.
- (ii) This company's statutory financial statements for the years ended 31 December 2015, 2016 and 2017, where appropriate, were audited by PricewaterhouseCoopers Hong Kong.
- (iii) This company's statutory financial statements for the years ended 31 December 2015, 2016 and 2017, where appropriate, were audited by PricewaterhouseCoopers Zhong Tian LLP.

- (iv) Shandong Prinx Chengshan Tire Technology Research Co., Ltd. was established on September 26, 2017 with an initial registered capital of RMB10,000,000 owned as to 32.5%, 30%, 30% and 7.5% respectively by Chengshan Group, Prinx Chengshan (Shandong) Tire Co., Ltd., Prinx Chengshan (Qingdao) Industrial Research & Design Co., Ltd. and three independent third parties. On 27 December 2017, Chengshan Group transferred its 32.5% equity interest in Shandong Prinx Chengshan Tire Technology Research Co., Ltd. to Prinx Chengshan (Shandong) Tire Co., Ltd. at a consideration of RMB3,250,000. After such transfer, the Group hold 92.5% equity interests of Prinx Chengshan Tire Technology Research Co., Ltd..

16B INTERESTS IN A SUBSIDIARY

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
				RMB'000
Unlisted investment, at cost	459	459	459	459
Amounts due from a subsidiary (Note)	1,513,593	1,616,910	1,608,609	1,559,980
	<u>1,514,052</u>	<u>1,617,369</u>	<u>1,609,068</u>	<u>1,560,439</u>

Note: The amounts due from a subsidiary are interest free, unsecured and have no specific repayment terms. The Company's intention is that the amounts due from a subsidiary will only be recalled when the subsidiary has surplus cash.

17 LAND USE RIGHTS

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

	Year ended 31 December			Three
	2015	2016	2017	months
	RMB'000	RMB'000	RMB'000	ended
				31 March
				2018
				RMB'000
Opening net book value	110,075	105,825	101,575	107,766
Additions	–	–	10,381	–
Amortisation	(4,250)	(4,250)	(4,190)	(959)
	<u>105,825</u>	<u>101,575</u>	<u>107,766</u>	<u>106,807</u>

During the Track Record Period, amortisation of the Group's land use rights have been charged to administrative expenses in the consolidated statements of profit or loss.

18 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and factory equipment	Furniture and fixtures	Vehicles	Toolings	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015							
Cost	346,019	2,045,444	20,225	14,102	266,416	149,085	2,841,291
Accumulated depreciation	(103,888)	(1,032,957)	(16,166)	(9,552)	(217,156)	-	(1,379,719)
Net book amount	242,131	1,012,487	4,059	4,550	49,260	149,085	1,461,572
Year ended 31 December 2015							
Opening net book amount	242,131	1,012,487	4,059	4,550	49,260	149,085	1,461,572
Transferred in from construction in progress	-	8,233	607	258	219	(9,317)	-
Other additions	465	6,166	991	1,951	25,308	7,686	42,567
Disposals	-	(531)	-	(23)	(5,591)	-	(6,145)
Depreciation charges	(14,271)	(153,426)	(2,179)	(1,624)	(15,078)	-	(186,578)
Closing net book amount	228,325	872,929	3,478	5,112	54,118	147,454	1,311,416
At 31 December 2015							
Cost	346,484	2,059,312	21,823	16,288	286,352	147,454	2,877,713
Accumulated depreciation	(118,159)	(1,186,383)	(18,345)	(11,176)	(232,234)	-	(1,566,297)
Net book amount	228,325	872,929	3,478	5,112	54,118	147,454	1,311,416
Year ended 31 December 2016							
Opening net book amount	228,325	872,929	3,478	5,112	54,118	147,454	1,311,416
Transferred in from construction in progress	149,451	16,123	39	-	7,461	(173,074)	-
Other additions	-	8,043	624	1,182	27,662	46,251	83,762
Disposals	(136)	(2,044)	(2)	(120)	-	-	(2,302)
Depreciation charges	(16,752)	(148,069)	(1,851)	(1,583)	(19,071)	-	(187,326)
Closing net book amount	360,888	746,982	2,288	4,591	70,170	20,631	1,205,550
At 31 December 2016							
Cost	495,799	2,081,434	22,484	17,350	321,475	20,631	2,959,173
Accumulated depreciation	(134,911)	(1,334,452)	(20,196)	(12,759)	(251,305)	-	(1,753,623)
Net book amount	360,888	746,982	2,288	4,591	70,170	20,631	1,205,550
Year ended 31 December 2017							
Opening net book amount	360,888	746,982	2,288	4,591	70,170	20,631	1,205,550
Transferred in from construction in progress	3,962	28,285	685	348	34,757	(68,037)	-
Other additions	-	8,746	651	2,115	6,184	97,137	114,833
Disposals	(622)	(589)	-	(17)	-	-	(1,228)
Depreciation charges	(19,100)	(138,595)	(890)	(2,010)	(24,734)	-	(185,329)
Closing net book amount	345,128	644,829	2,734	5,027	86,377	49,731	1,133,826

	Buildings	Machinery and factory equipment	Furniture and fixtures	Vehicles	Toolings	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017							
Cost	499,139	2,117,876	23,820	19,796	362,416	49,731	3,072,778
Accumulated depreciation	(154,011)	(1,473,047)	(21,086)	(14,769)	(276,039)	-	(1,938,952)
Net book amount	345,128	644,829	2,734	5,027	86,377	49,731	1,133,826
Three months ended 31 March 2018							
Opening net book amount	345,128	644,829	2,734	5,027	86,377	49,731	1,133,826
Transferred in from construction in progress	3,929	4,150	209	-	3,685	(11,973)	-
Other additions	-	2,356	76	-	-	45,359	47,791
Disposals	-	(428)	-	-	-	-	(428)
Depreciation charges	(4,803)	(34,265)	(190)	(468)	(7,093)	-	(46,819)
Closing net book amount	344,254	616,642	2,829	4,559	82,969	83,117	1,134,370
At 31 March 2018							
Cost	503,068	2,123,954	24,105	19,796	366,101	83,117	3,120,141
Accumulated depreciation	(158,814)	(1,507,312)	(21,276)	(15,237)	(283,132)	-	(1,985,771)
Net book amount	344,254	616,642	2,829	4,559	82,969	83,117	1,134,370

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the net book value of buildings which have not obtained the housing title certificates amounted to RMB70.6 million, RMB213.2 million, RMB209.1 million and RMB1.80 million respectively.

During the Track Record Period, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses, administrative expenses and research and development costs are as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost of sales	171,577	169,884	166,261	41,934	42,081
Selling and distribution expenses	40	2,451	4,907	1,226	1,262
Administrative expenses	2,059	1,916	1,810	473	416
Research and development costs	12,902	13,075	12,351	3,218	3,060
Total	186,578	187,326	185,329	46,851	46,819

No eligible borrowing cost was capitalised into the costs of property, plant and equipment during the year ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018.

19 INTANGIBLE ASSETS

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Contractual customer relationship</u>	<u>Computer software</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2015					
Cost	43,436	887	51,130	15,341	110,794
Accumulated amortisation	–	(452)	(852)	(10,017)	(11,321)
Net book amount	<u>43,436</u>	<u>435</u>	<u>50,278</u>	<u>5,324</u>	<u>99,473</u>
Year ended 31 December 2015					
Opening net book amount	43,436	435	50,278	5,324	99,473
Additions	–	–	–	1,161	1,161
Amortisation charge	–	(88)	(10,226)	(3,003)	(13,317)
Closing net book amount	<u>43,436</u>	<u>347</u>	<u>40,052</u>	<u>3,482</u>	<u>87,317</u>
At 31 December 2015					
Cost	43,436	887	51,130	16,502	111,955
Accumulated amortisation	–	(540)	(11,078)	(13,020)	(24,638)
Net book amount	<u>43,436</u>	<u>347</u>	<u>40,052</u>	<u>3,482</u>	<u>87,317</u>
Year ended 31 December 2016					
Opening net book amount	43,436	347	40,052	3,482	87,317
Additions	–	685	–	359	1,044
Amortisation charge	–	(156)	(10,226)	(1,427)	(11,809)
Closing net book amount	<u>43,436</u>	<u>876</u>	<u>29,826</u>	<u>2,414</u>	<u>76,552</u>
At 31 December 2016					
Cost	43,436	1,572	51,130	16,861	112,999
Accumulated amortisation	–	(696)	(21,304)	(14,447)	(36,447)
Net book amount	<u>43,436</u>	<u>876</u>	<u>29,826</u>	<u>2,414</u>	<u>76,552</u>
Year ended 31 December 2017					
Opening net book amount	43,436	876	29,826	2,414	76,552
Additions	–	–	–	1,153	1,153
Amortisation charge	–	(360)	(10,226)	(1,208)	(11,794)
Closing net book amount	<u>43,436</u>	<u>516</u>	<u>19,600</u>	<u>2,359</u>	<u>65,911</u>
At 31 December 2017					
Cost	43,436	1,572	51,130	18,014	114,152
Accumulated amortisation	–	(1,056)	(31,530)	(15,655)	(48,241)
Net book amount	<u>43,436</u>	<u>516</u>	<u>19,600</u>	<u>2,359</u>	<u>65,911</u>

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Contractual customer relationship</u>	<u>Computer software</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Three months ended					
31 March 2018					
Opening net book amount	43,436	516	19,600	2,359	65,911
Additions	–	–	–	–	–
Amortisation charge	–	(90)	(2,557)	(304)	(2,951)
Closing net book amount	43,436	426	17,043	2,055	62,960
At 31 March 2018					
Cost	43,436	1,572	51,130	18,014	114,152
Accumulated amortisation	–	(1,146)	(34,087)	(15,959)	(51,192)
Net book amount	43,436	426	17,043	2,055	62,960

During the Track Record Period, amortisation of the Group's intangible assets has been charged to administrative expenses in the consolidated statements of profit or loss.

Impairment test for goodwill

Management reviews the business performance based on a measure of operating results. It has identified one operating segment – manufacturing and selling of rubber products. Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill for operating segment:

	<u>Opening</u>	<u>Addition</u>	<u>Impairment</u>	<u>Other adjustment</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2015	43,436	–	–	–	43,436
Year ended 31 December 2016	43,436	–	–	–	43,436
Year ended 31 December 2017	43,436	–	–	–	43,436
Three months ended 31 March 2018	43,436	–	–	–	43,436

The recoverable amount of a cash-generating unit (“CGU”) is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

For the CGU, the key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2015, 2016, 2017 and 2018 are as follows.

	As at 31 December			As at 31 March
	2015	2016	2017	2018
Sales volume (% annual growth rate)	8%-9%	8%-16%	6%-12%	6%-12%
Sales price (% annual growth rate)	1%-2%	4%-5%	3%-4%	3%-4%
Gross margin (% of revenue)	17%-21%	17%-21%	14%-17%	14%-17%
Long term growth rate	3%	3%	3%	3%
Pre-tax discount rate	16%	18%	18%	18%

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

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

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

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

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are post-tax and reflect specific risks relating to the relevant operating segment.

As at 31 March 2018, the recoverable amount of RMB 2,897.2 million of CGU exceeded its carrying value of RMB2,085.0 million by RMB 812.2 million. A 5.21% decrease in estimated annual sales volume growth rate, a 2.82% decrease in estimated sales price growth rate, a 1.38% decrease in estimated gross margin, a 2.50% decrease in estimated long term growth rate or a 3.26% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculation, would remove the remaining headroom.

The directors of the Company considered there is no reasonably possible change in key parameters would cause the carrying amount of the CGU to exceed its recoverable amount.

As at 31 December 2015, 2016 and 2017 and 31 March 2018, directors of the Company determined that there was no impairment of goodwill.

20A FINANCIAL INSTRUMENTS BY CATEGORY

	<u>Receivables</u>	<u>Available-for-sale</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2015			
Financial assets			
Available-for-sale financial assets	–	91,600	91,600
Amounts due from related parties	92,124	–	92,124
Trade receivables	622,467	–	622,467
Other receivables excluding prepayments	892	–	892
Cash and cash equivalents	154,425	–	154,425
Restricted cash	47,605	–	47,605
Total	917,513	91,600	1,009,113
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2015			
Financial liabilities			
Borrowings	–	126,031	126,031
Financial liabilities at fair value through profit or loss	264,387	–	264,387
Trade payables	–	659,780	659,780
Other payables	–	211,408	211,408
Amounts due to related parties	–	346,408	346,408
Total	264,387	1,343,627	1,608,014
	Receivables	Available-for-sale	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2016			
Financial assets			
Available-for-sale financial assets	–	110,620	110,620
Amounts due from related parties	104,421	–	104,421
Trade receivables	767,710	–	767,710
Other receivables excluding prepayments	2,960	–	2,960
Cash and cash equivalents	709,914	–	709,914
Restricted cash	39,107	–	39,107
Total	1,624,112	110,620	1,734,732

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2016			
Financial liabilities			
Financial liabilities at fair value through profit or loss	339,289	–	339,289
Trade payables	–	847,275	847,275
Other payables	–	204,442	204,442
Amounts due to related parties	–	470,768	470,768
Total	339,289	1,522,485	1,861,774
	Receivables	Available-for-sale	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2017			
Financial assets			
Available-for-sale financial assets	–	130,000	130,000
Amounts due from related parties	19,369	–	19,369
Trade receivables	971,272	–	971,272
Other receivables excluding prepayments	5,592	–	5,592
Cash and cash equivalents	687,998	–	687,998
Restricted cash	120,299	–	120,299
Total	1,804,530	130,000	1,934,530
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2017			
Financial liabilities			
Borrowings	–	306,075	306,075
Financial liabilities at fair value through profit or loss	374,619	–	374,619
Trade payables	–	907,106	907,106
Other payables	–	187,624	187,624
Amounts due to related parties	–	249,266	249,266
Total	374,619	1,650,071	2,024,690

	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 March 2018			
Financial assets			
Financial assets at fair value through profit or loss	–	346,358	346,358
Amounts due from related parties	48,572	–	48,572
Trade receivables	1,104,616	–	1,104,616
Other receivables excluding prepayments	12,163	–	12,163
Cash and cash equivalents	441,766	–	441,766
Restricted cash	108,579	–	108,579
Total	1,715,696	346,358	2,062,054

**Financial
liabilities at
amortised cost**

RMB'000

31 March 2018			
Financial liabilities			
Borrowings			303,737
Trade payables			990,073
Other payables			223,702
Amounts due to related parties			153,765
Total			1,671,277

20B CREDIT QUALITY OF FINANCIAL ASSETS**Trade receivables**

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

Group 1 – Notes receivable.

Group 2 – Accounts receivable due from customers with no defaults in the past.

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Group 1	210,093	239,032	449,234	346,680
Group 2	412,374	528,678	522,038	757,936
Total	622,467	767,710	971,272	1,104,616

Bank deposits

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

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

Group 1 – Major international banks (Hong Kong and Shanghai Bank (China) Company Limited), etc.

Group 2 – Top 4 banks in the PRC (China Construction Bank, Bank of China Limited, Agricultural Bank of China and Industrial and Commercial Bank of China).

Group 3 – Other state-controlled banks in the PRC.

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
Group 1	25,991	100,837	116,780	118,484
Group 2	157,662	629,847	679,403	399,842
Group 3	18,376	18,336	12,039	31,943
Total	202,029	749,020	808,222	550,269

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December			Three months ended
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
At beginning of the year/period	272,000	91,600	110,620	130,000
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	–	–	–	(130,000)
Additions	5,011,101	1,046,100	1,225,081	–
Disposals	(5,202,908)	(1,030,495)	(1,208,697)	–
Gain on disposal of available-for-sale financial assets	11,407	3,415	2,996	–
At the end of the year/period	91,600	110,620	130,000	–
	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
Wealth management products with principal and interests non-guaranteed and due within one year (a)	91,600	110,620	130,000	–

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

22 INVENTORIES

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Raw materials	196,643	136,191	176,393	202,027
Work-in-progress	25,313	44,691	44,031	43,623
Finished goods	393,061	447,262	468,100	352,558
	615,017	628,144	688,524	598,208
Provision for impairment of inventory	(7,307)	(2,474)	(1,321)	(1,179)
	607,710	625,670	687,203	597,029

During the years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018, the cost of inventories recognised as an expense and included in 'cost of sales' was RMB2,363.1 million, RMB2,496.4 million, RMB3,565.7 million and RMB961.4 million respectively. Provisions of inventory write-down of RMB1.5 million, RMB1.3 million, RMB2.4 million and RMB0.1 million were made for the year ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018, respectively.

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

	Year ended 31 December			Three months ended
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
At beginning of the year	10,604	7,307	2,474	1,321
Provision for write-down of inventories (Note 9)	1,478	1,322	2,383	130
Write-off as recorded in cost of sales	(4,775)	(6,155)	(3,536)	(272)
At the end of the year/period	7,307	2,474	1,321	1,179

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December			Three months ended
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i> <i>RMB'000</i>
At beginning of the year/period	–	–	–	–
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	–	–	–	130,000
Additions	–	3,011,163	353,352	1,219,709
Disposals	–	(3,012,882)	(353,726)	(1,003,007)
Gains/(losses) on disposal of financial assets at fair value through profit or loss	–	1,719	374	(2,654)
Fair value losses on financial assets at fair value through profit or loss	–	–	–	2,310
At the end of the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>346,358</u>
	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i> <i>RMB'000</i>
Financial assets at fair value through profit or loss				
– Wealth management product (a)	–	–	–	199,340
– Currency swaps (b)	–	–	–	147,018
	<u>–</u>	<u>–</u>	<u>–</u>	<u>346,358</u>

- (a) The wealth management products are fair valued using a discounted cash flow approach. The main input used by the Group is estimated yield rate written in contract with the counterparty. The fair value is within level 3 of the fair value hierarchy (Note 3.3).
- (b) The currency swaps are fair valued based on some inputs other than quoted prices. The main input used by the Group is exchange rate written in contract with the counterparty. The fair value is within level 2 of the fair value hierarchy (Note 3.3).

24 TRADE RECEIVABLES

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Accounts receivable	443,626	540,738	533,612	770,354
Less: provision for impairment of accounts receivable	(31,252)	(12,060)	(11,574)	(12,418)
Accounts receivable – net	412,374	528,678	522,038	757,936
Notes receivable	210,093	239,032	449,234	346,680
Trade receivables – net	<u>622,467</u>	<u>767,710</u>	<u>971,272</u>	<u>1,104,616</u>

The carrying amounts of trade receivables approximated their fair values as at the respective balance sheet dates during the Track Record Period.

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Up to 3 months	534,519	712,896	841,588	852,646
4 to 6 months	70,038	34,436	122,276	217,856
7 to 12 months	5,693	7,501	5,478	29,424
1 to 2 years	17,118	11,548	5,410	8,952
2 to 3 years	147	9,070	3,859	3,921
Over 3 years	26,204	4,319	4,235	4,235
	<u>653,719</u>	<u>779,770</u>	<u>982,846</u>	<u>1,117,034</u>

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

	Year ended 31 December			Three months ended
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
At beginning of the year/period	31,310	31,252	12,060	11,574
Provision for/(reversal of) impairment of trade receivables (Note 9)	273	(73)	720	844
Trade receivables written off during the year as uncollectible (Note)	(331)	(19,119)	(1,206)	–
At the end of the year/period	<u>31,252</u>	<u>12,060</u>	<u>11,574</u>	<u>12,418</u>

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

Note: During the year ended in 31 December 2016, the Group sold the trade receivables with the gross amount of RMB20.4 million and provision of RMB19.1 million to Chengshan Group, at a consideration of RMB3.0 million.

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

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	514,767	580,934	733,961	809,364
USD	138,952	198,765	248,270	307,164
EUR	–	71	615	506
	<u>653,719</u>	<u>779,770</u>	<u>982,846</u>	<u>1,117,034</u>

25 PREPAYMENTS AND OTHER RECEIVABLES

Group	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current				
Prepayments for purchase of property, plant and equipment	<u>2,333</u>	<u>1,522</u>	<u>19,395</u>	<u>6,142</u>
Current				
Prepayments	19,359	5,122	27,356	33,292
Prepayments for listing expense	–	–	1,275	3,673
Other receivables	<u>892</u>	<u>2,960</u>	<u>4,317</u>	<u>5,854</u>
	<u>20,251</u>	<u>8,082</u>	<u>32,948</u>	<u>42,819</u>
	<u>22,584</u>	<u>9,604</u>	<u>52,343</u>	<u>48,961</u>

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

26 CASH AND CASH EQUIVALENTS

Group	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
Cash on hand	1	1	75	76
Cash at banks	202,029	749,020	808,222	550,269
Less: Restricted cash (a)	202,030 (47,605)	749,021 (39,107)	808,297 (120,299)	550,345 (108,579)
	<u>154,425</u>	<u>709,914</u>	<u>687,998</u>	<u>441,766</u>

(a) As at 31 December 2015 and 2016, the restricted cash balances were pledged as security for issuing notes payable of Group (Note 31).

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

As at 31 March 2018, the restricted cash balances amounting to RMB25.7 million and RMB82.9 million were pledged as security for issuing notes payable of Group (Note 31) and pledged as security for bank borrowings (Note 29), respectively.

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

Group	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
RMB	71,139	80,939	204,286	185,720
USD	130,718	666,169	601,367	362,479
EUR	–	627	1,413	1,423
HKD	173	1,286	1,231	723
	<u>202,030</u>	<u>749,021</u>	<u>808,297</u>	<u>550,345</u>

Company	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
Cash at bank – USD	<u>76</u>	<u>71</u>	<u>46</u>	<u>39</u>

27 SHARE CAPITAL AND SHARE PREMIUM

Group and Company	<u>Number of authorised shares</u>
Authorised share capital:	
As at 22 May 2015 (date of incorporation) (<i>Note 1.2(i)</i>)	5,000,000
Share subdivision (<i>i</i>)	<u>995,000,000</u>
As at 31 December 2015	<u><u>1,000,000,000</u></u>
As at 1 January 2016 and 31 December 2016 and 2017 and 31 March 2018	<u><u>1,000,000,000</u></u>

- (i) On 18 September 2015, the par value of each share of the Company was changed from USD0.01 to USD0.00005 by way of a 200-for-1 share subdivision.

	<u>Number of issued shares</u>	<u>Nominal value of Ordinary shares</u> <i>RMB'000</i>	<u>Share premium</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
Issued and fully paid:				
Issuance of ordinary share at date of incorporation	1	–	–	–
Issue of shares pursuant to the Reorganisation (<i>Note 1.2(ii)</i>)	<u>436,599,999</u>	<u>133</u>	<u>1,230,275</u>	<u>1,230,408</u>
As at 31 December 2015	<u><u>436,600,000</u></u>	<u><u>133</u></u>	<u><u>1,230,275</u></u>	<u><u>1,230,408</u></u>
Cash dividends (<i>Note 15</i>)	<u>–</u>	<u>–</u>	<u>(27,466)</u>	<u>(27,466)</u>
As at 31 December 2016	<u><u>436,600,000</u></u>	<u><u>133</u></u>	<u><u>1,202,809</u></u>	<u><u>1,202,942</u></u>
Cash dividends (<i>Note 15</i>)	<u>–</u>	<u>–</u>	<u>(90,240)</u>	<u>(90,240)</u>
As at 31 December 2017	<u><u>436,600,000</u></u>	<u><u>133</u></u>	<u><u>1,112,569</u></u>	<u><u>1,112,702</u></u>
Conversion of preferred shares (<i>Note</i>)	<u>63,400,000</u>	<u>19</u>	<u>374,600</u>	<u>374,619</u>
As at 31 March 2018	<u><u>500,000,000</u></u>	<u><u>152</u></u>	<u><u>1,487,169</u></u>	<u><u>1,487,321</u></u>

Note: On 1 January 2018, a supplemental agreement was entered between Chengshan Group and Sinotruk Capital pursuant to which, all the Series A preferred shares were converted into 63,400,000 ordinary shares on the same date, the fair value of which amounting to US\$57,332,000 (equivalent to approximately RMB374,619,000) was recognised in share capital and share premium.

28 RESERVES

Group	Capital	Statutory	Translation	Retained	Total
	reserve	reserve	reserve	earnings/ (accumulated losses) (i)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	906,745	40,328	1,899	(42,450)	906,522
Profit for the year	–	–	–	163,144	163,144
Profit appropriation to statutory reserves	–	28,478	–	(28,478)	–
Cash dividends (<i>Note 15</i>)	(485,025)	–	–	–	(485,025)
Deemed Distribution (<i>Note 1.2 (iv),(v)</i>)	(492,435)	–	–	–	(492,435)
Currency translation differences	–	–	(70,678)	–	(70,678)
Balance at 31 December 2015	<u>(70,715)</u>	<u>68,806</u>	<u>(68,779)</u>	<u>92,216</u>	<u>21,528</u>
Profit for the year	–	–	–	291,206	291,206
Profit appropriation to statutory reserves	–	31,293	–	(31,293)	–
Currency translation differences	–	–	(19,039)	–	(19,039)
Balance at 31 December 2016	<u>(70,715)</u>	<u>100,099</u>	<u>(87,818)</u>	<u>352,129</u>	<u>293,695</u>
Profit for the year	–	–	–	173,698	173,698
Currency translation differences	–	–	21,280	–	21,280
Balance at 31 December 2017	<u>(70,715)</u>	<u>100,099</u>	<u>(66,538)</u>	<u>525,827</u>	<u>488,673</u>
Profit for the period	–	–	–	108,435	108,435
Cash dividends (<i>Note 15</i>)	–	–	–	(83,082)	(83,082)
Currency translation differences	–	–	(804)	–	(804)
Balance at 31 March 2018	<u>(70,715)</u>	<u>100,099</u>	<u>(67,342)</u>	<u>551,180</u>	<u>513,222</u>

- (i) In accordance with the PRC Company Law and the articles of association of the PRC subsidiaries of the Group (the “PRC subsidiaries”), the PRC subsidiaries are required to allocate 10% of their profits attributable to the respective owners of the PRC subsidiaries as set out in their statutory financial statements, to the statutory reserve until such reserve reaches 50% of the registered capital of the respective PRC subsidiary.

These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital. The entities in the PRC may transfer their respective statutory reserves into paid-in capital, provided that the balance of the statutory reserve after such transfer is not less than 25% of the registered capital.

For the years ended 31 December 2015 and 2016, PRC subsidiaries set aside after-tax profit of RMB28.5 million, RMB31.3 million, respectively, to their statutory reserve.

Company	Translation reserve	Retained earnings/ (accumulated losses)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 22 May 2015 (date of incorporation)	–	–	–
Loss for the year	–	(8,641)	(8,641)
Currency translation differences	24,043	–	24,043
Balance at 31 December 2015	24,043	(8,641)	15,402
Loss for the year	–	(36,394)	(36,394)
Currency translation differences	83,428	–	83,428
Balance at 31 December 2016	107,471	(45,035)	62,436
Profit for the year	–	33,493	33,493
Currency translation differences	(72,149)	–	(72,149)
Balance at 31 December 2017	35,322	(11,542)	23,780
Profit for the period	–	95,138	95,138
Cash dividends (<i>Note 15</i>)	–	(83,082)	(83,082)
Currency translation differences	(57,001)	–	(57,001)
Balance at 31 March 2018	(21,679)	514	(21,165)

29 BANK BORROWINGS

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current				
Bank borrowings				
– Unsecured	51,949	–	–	–
Less: current portion of long-term bank borrowings	(19,481)	–	–	–
	32,468	–	–	–
Current				
Short-term bank borrowings				
– Secured	–	–	256,075	253,737
– Unsecured	74,082	–	50,000	50,000
Add: current portion of long-term bank borrowings	19,481	–	–	–
	93,563	–	306,075	303,737
Total bank borrowings	126,031	–	306,075	303,737

As at 7 April 2016 the principal of the long-term bank borrowings, including non-current and current portion outstanding as at 31 December 2015, was fully repaid.

As at 31 December 2017 and 31 March 2018, the secured bank borrowings were secured by certain restricted bank balances (Note 26).

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

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2018
RMB	–	–	244,000	244,000
USD	126,031	–	62,075	59,737
	<u>126,031</u>	<u>–</u>	<u>306,075</u>	<u>303,737</u>

As at 31 December 2015 and 2017 and 31 March 2018, the weighted average effective interest rates on borrowings from banks were 2.93%, 3.31% and 3.31%, respectively.

The Group has the following undrawn borrowing facilities:

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2018
Fixed rate:				
– Expiring within one year	<u>1,765,145</u>	<u>1,514,611</u>	<u>1,275,746</u>	<u>1,250,348</u>
– Expiring over one year	<u>–</u>	<u>–</u>	<u>173,925</u>	<u>176,263</u>

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

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2018
6 months or less	93,563	–	50,000	50,000
Between 6 and 12 months	–	–	256,075	253,737
Between 1 and 2 years	32,468	–	–	–
	<u>126,031</u>	<u>–</u>	<u>306,075</u>	<u>303,737</u>

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

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Within 1 year	93,563	–	306,075	303,737
Between 1 and 2 years	32,468	–	–	–
	<u>126,031</u>	<u>–</u>	<u>306,075</u>	<u>303,737</u>

As at 31 December 2015, the carrying amounts of all non-current bank borrowings approximate their fair values as a result of bearing floating interest rate.

As at 31 December 2015 and 2017 and 31 March 2018, the carrying amounts of current borrowings approximate their fair values.

30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

(a) Redemption

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

- (1) no qualified initial public offer has been completed by the third anniversary of the business day, within a period commencing from the fourth anniversary of the business day and ending on the sixth anniversary of the business day.
- (2) upon the occurrence of any material breach event by the Company or Chengshan Group, within a period of 90 days commencing from the expiration of a 30-day cure period.

(b) Dividend

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

(c) Conversion

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

(d) Liquidation

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

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

(e) **Convertible redeemable preferred shares**

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

	Year ended 31 December			Three months ended 31 March
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Opening balance	–	264,387	339,289	374,619
Issuance of preferred shares	253,980	–	–	–
Fair value losses	4,591	55,032	56,727	–
Converted into ordinary shares (<i>Note 27</i>)	–	–	–	(374,619)
Currency translation difference	5,816	19,870	(21,397)	–
Closing balance	<u>264,387</u>	<u>339,289</u>	<u>374,619</u>	<u>–</u>

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

	As at 31 December		
	2015	2016	2017
Discount rates	14.00%	15.00%	15.00%
Risk-free rate of interest	1.69%	1.59%	1.88%
Stock price fluctuation of comparable company	37.45%	39.17%	33.24%
Initial public offering probability	75%	75%	80%

The discount rate is the weighted average cost of capital for each valuation date.

31 TRADE PAYABLES

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	352,299	554,655	633,276	755,113
Notes payable (<i>a</i>)	307,481	292,620	273,830	234,960
	<u>659,780</u>	<u>847,275</u>	<u>907,106</u>	<u>990,073</u>

- (a) As at 31 December 2015, 2016 and 2017 and 31 March 2018, all notes payable represented bank acceptance notes were secured by certain restricted bank balances respectively (Note 26).

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

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
RMB	642,980	824,924	896,142	955,289
USD	16,800	22,104	10,682	34,475
EUR	–	247	282	309
	<u>659,780</u>	<u>847,275</u>	<u>907,106</u>	<u>990,073</u>

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the aging analysis of the trade payables based on invoice date was as follows:

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Within 3 months	426,778	631,380	621,330	740,750
4 to 6 months	203,892	191,331	266,197	226,675
7 to 12 months	9,214	6,719	7,810	10,009
Above 1 year	19,896	17,845	11,769	12,639
	<u>659,780</u>	<u>847,275</u>	<u>907,106</u>	<u>990,073</u>

32 OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Accrued sales rebates and commission	109,744	85,732	50,454	70,417
Accrued expense	55,109	59,137	69,854	77,617
Other payables	46,555	59,573	67,316	75,668
Payroll and employee benefit payables	64,162	77,167	84,728	88,589
Other tax payables	30,789	64,652	10,479	25,431
Advances from customers	23,191	31,537	73,415	–
Deposit from customers	2,335	22,670	23,214	24,124
Interest payables	194	–	247	312
	<u>332,079</u>	<u>400,468</u>	<u>379,707</u>	<u>362,158</u>

33 PROVISION FOR WARRANTIES

	Products warranties
	<i>RMB'000</i>
As at 1 January 2015	94,252
Additional provision (<i>Note 9</i>)	53,673
Utilised during the year	<u>(70,837)</u>
As at 31 December 2015	<u>77,088</u>
Additional provision (<i>Note 9</i>)	65,647
Utilised during the year	<u>(59,870)</u>
As at 31 December 2016	<u>82,865</u>
Additional provision (<i>Note 9</i>)	75,832
Utilised during the year	<u>(71,292)</u>
As at 31 December 2017	<u>87,405</u>
Additional provision (<i>Note 9</i>)	13,694
Utilised during the period	<u>(13,163)</u>
As at 31 March 2018	<u><u>87,936</u></u>

34 DEFERRED INCOME

	Deferred government grant
	<i>RMB'000</i>
As at 1 January 2015	16,336
Addition	–
Credited to the consolidated statements of profit or loss	<u>(1,456)</u>
As at 31 December 2015	<u>14,880</u>
Addition	3,859
Credited to the consolidated statements of profit or loss	<u>(2,399)</u>
As at 31 December 2016	<u>16,340</u>
Addition	2,000
Credited to the consolidated statements of profit or loss	<u>(2,556)</u>
As at 31 December 2017	<u>15,784</u>
Addition	9,930
Credited to the consolidated statements of profit or loss	<u>(642)</u>
As at 31 March 2018	<u><u>25,072</u></u>

35 DEFERRED INCOME TAX

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

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
				RMB'000
Deferred tax assets:				
– Deferred tax asset to be recovered within 12 months	23,326	22,773	21,069	22,846
– Deferred tax asset to be recovered after more than 12 months	769	730	691	652
	<u>24,095</u>	<u>23,503</u>	<u>21,760</u>	<u>23,498</u>
Deferred tax liabilities:				
– Deferred tax liabilities to be settled within 12 months	(5,929)	(5,913)	(5,742)	(5,741)
– Deferred tax liabilities to be settled after more than 12 months	(38,040)	(32,143)	(26,572)	(25,138)
	<u>(43,969)</u>	<u>(38,056)</u>	<u>(32,314)</u>	<u>(30,879)</u>
Deferred tax liabilities, net	<u>(19,874)</u>	<u>(14,553)</u>	<u>(10,554)</u>	<u>(7,381)</u>

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

	Year ended 31 December			Three months ended
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
				RMB'000
At beginning of year	(23,298)	(19,874)	(14,553)	(10,554)
Statements of profit or loss – credit (Note 13)	3,424	5,321	3,999	3,173
At end of year/period	<u>(19,874)</u>	<u>(14,553)</u>	<u>(10,554)</u>	<u>(7,381)</u>

The movement in deferred tax assets and liabilities during the Track Record Period, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	<u>Impairment</u>	<u>Accelerated tax depreciation</u>	<u>Accruals</u>	<u>Warranties</u>	<u>Government grants</u>	<u>Others</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2015	3,610	2,213	10,266	7,844	2,450	217	26,600
(Charged)/credited to the consolidated statements of profit or loss	(504)	(424)	(1,369)	(389)	(218)	399	(2,505)
At 31 December 2015	3,106	1,789	8,897	7,455	2,232	616	24,095
(Charged)/credited to the consolidated statements of profit or loss	(925)	(355)	(342)	871	220	(61)	(592)
At 31 December 2016	2,181	1,434	8,555	8,326	2,452	555	23,503
Charged to the consolidated statements of profit or loss	(246)	(366)	(883)	(123)	(83)	(42)	(1,743)
At 31 December 2017	1,935	1,068	7,672	8,203	2,369	513	21,760
(Charged)/credited to the consolidated statements of profit or loss	104	(64)	270	221	1,392	(185)	1,738
At 31 March 2018	<u>2,039</u>	<u>1,004</u>	<u>7,942</u>	<u>8,424</u>	<u>3,761</u>	<u>328</u>	<u>23,498</u>

Deferred tax liabilities

	Fair value gains arising from business combination
	<i>RMB'000</i>
At 1 January 2015	49,898
Credited to the consolidated statements of profit or loss	(5,929)
At 31 December 2015	<u>43,969</u>
Credited to the consolidated statements of profit or loss	(5,913)
At 31 December 2016	<u>38,056</u>
Credited to the consolidated statements of profit or loss	(5,742)
At 31 December 2017	<u>32,314</u>
Credited to the consolidated statements of profit or loss	(1,435)
At 31 March 2018	<u>30,879</u>

36 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	296,125	346,182	210,018	25,418	125,360
Adjustments for:					
– Depreciation of property, plant and equipment (Note 18)	186,578	187,326	185,329	46,851	46,819
– Amortisation of land use rights (Note 17)	4,250	4,250	4,190	1,063	959
– Amortisation of intangible assets (Note 19)	13,317	11,809	11,794	2,942	2,951
– Gains on disposal of available-for-sale financial assets (Note 8)	(11,407)	(3,415)	(2,996)	(1,071)	–
– (Gains)/losses on disposal of financial assets at fair value through profit or loss (Note 8)	–	(1,719)	(374)	–	2,654
– Losses/(gains) from fair value change of financial assets at fair value through profit or loss (Note 8)	–	–	–	93	(2,310)
– (Gains)/losses on disposal of property, plant and equipment (Note 8)	(1,468)	2,149	766	(51)	347
– Provision for/(reversal of) impairment of receivables (Note 24)	273	(73)	720	307	844
– Provision for write-down of inventories (Note 22)	1,478	1,322	2,383	–	130
– Finance expenses/(income) – net (Note 11)	49,157	13,780	9,587	2,677	(892)
– Losses from fair value change of convertible redeemable preferred shares (Note 12)	4,591	55,032	56,727	3,009	–
Changes in working capital (excluding currency translation differences on consolidation):					
– (Increase)/decrease in pledged bank deposits	(4,648)	8,498	4,150	6,223	9,259
– Decrease/(increase) in inventories	91,046	(19,282)	(63,916)	(66,926)	90,044
– Decrease/(increase) in trade receivables	270,717	(145,170)	(204,282)	(170,691)	(134,188)
– (Increase)/decrease in prepayments and other receivables	(841)	12,169	(24,153)	(23,827)	(9,871)
– (Increase)/decrease in amounts due from related parties	(5,168)	(8,438)	5,050	(1,304)	(29,203)
– Increase in trade payables	4,301	187,495	59,831	84,536	82,967
– Increase in amounts due to related parties	14,358	6,796	20,347	38,210	12,638
– (Decrease)/increase in deferred income, net	(1,456)	1,460	(556)	1,278	9,288
– (Decrease)/increase in provision for warranties	(17,164)	5,777	4,540	5,747	531
– (Decrease)/increase in other payables and accruals	(50,651)	62,065	(18,421)	17,993	9,718
– Increase in contract liabilities	–	–	–	–	36,354
Cash generated from/(used in) operations	843,388	728,013	260,734	(27,523)	254,399

- (b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net book value (<i>Note 18</i>)	6,145	2,302	1,228	205	428
Gains/(losses) on disposal of property, plant and equipment (<i>Note 8</i>)	1,468	(2,149)	(766)	51	(347)
Proceeds from disposal of property, plant and equipment	<u>7,613</u>	<u>153</u>	<u>462</u>	<u>256</u>	<u>81</u>

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

	Financial liabilities at fair value through profit or loss	Bank borrowings	Loans from related parties	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As of 1 January 2015	–	1,001,539	814,846	1,816,385
Currency translations	5,816	42,842	34,511	83,169
Cash flows				
– inflow from financing activities	253,980	170,120	71,411	495,511
– outflow from operating activities	–	(45,002)	–	(45,002)
– outflow from financing activities	–	(1,084,089)	(592,649)	(1,676,738)
Non-cash changes				
– fair value changes	4,591	–	–	4,591
– interest expense	3,931	40,815	–	44,746
As of 31 December 2015 <i>(Note)</i>	<u>268,318</u>	<u>126,225</u>	<u>328,119</u>	<u>722,662</u>
Currency translations	19,927	(322)	22,252	41,857
Cash flows				
– inflow from financing activities	–	60,000	86,571	146,571
– outflow from operating activities	(3,988)	(2,387)	–	(6,375)
– outflow from financing activities	–	(185,709)	(101)	(185,810)
Non-cash changes				
– fair value changes	55,032	–	–	55,032
– interest expense	12,773	2,193	–	14,966
As of 31 December 2016 <i>(Note)</i>	<u>352,062</u>	<u>–</u>	<u>436,841</u>	<u>788,903</u>

	Financial liabilities at fair value through profit or loss	Bank borrowings	Loans from related parties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Currency translations	(21,742)	(1,896)	(8,520)	(32,158)
Cash flows				
– inflow from financing activities	–	340,943	–	340,943
– outflow from operating activities	(13,104)	(2,063)	–	(15,167)
– outflow from financing activities	–	(32,972)	(318,569)	(351,541)
Non-cash changes				
– fair value changes	56,727	–	–	56,727
– interest expense	13,104	2,310	–	15,414
As of 31 December 2017 <i>(Note)</i>	<u>387,047</u>	<u>306,322</u>	<u>109,752</u>	<u>803,121</u>
Currency translations	(363)	(2,338)	(3,775)	(6,476)
Cash flows				
– inflow from financing activities	–	–	–	–
– outflow from operating activities	–	(2,519)	–	(2,519)
– outflow from financing activities	–	–	(100,673)	(100,673)
Non-cash changes				
– interest expense	–	2,584	–	2,584
– converted into ordinary shares	(374,619)	–	–	(374,619)
As of 31 March 2018 <i>(Note)</i>	<u>12,065</u>	<u>304,049</u>	<u>5,304</u>	<u>321,418</u>

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

37 COMMITMENTS

(a) Capital commitments

The capital commitments of the Group as at the respective balance sheet dates during the Track Record Period were as follows:

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment				
– Contracted but not provided for	22,483	18,379	39,940	35,958

(b) Commitments under operating leases

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
No later than 1 year	8,295	8,334	1,631	9,549
Later than 1 year and no later than 5 years	11,009	2,675	1,344	16,131
	<u>19,304</u>	<u>11,009</u>	<u>2,975</u>	<u>25,680</u>

38 ACQUISITION AND DISPOSAL OF A SUBSIDIARY

Prinx Chengshan Tire (Malaysia) Sdn. Bhd. ("Chengshan (Malaysia)") is a limited liability company established in Malaysia on 25 January 2017 with an initial authorized share capital of RM400,000 divided into 400,000 ordinary shares of RM1.00 each. On the date of incorporation, a total of two shares were allotted and issued at par value to the initial subscribers, each being an independent third party, which were subsequently transferred to Chengshan Group on 10 March 2017 at par value.

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

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

39 RELATED PARTY TRANSACTIONS

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

Save as disclosed elsewhere in this Historical 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 during the Track Record Period, and balances arising from related party transactions as at the respective balance sheet dates.

Name and relationship with related parties are set out below:

Related party	Relationship
Chengshan Group	Immediate holding company
Chengshan Trade	Entity controlled by immediate holding company
Sinotruk Capital	The preferred shareholder of the Company
China National Heavy Duty Truck Group Co., Ltd (referred as "Sinotruk").	Controlled by same ultimate parent company of Sinotruk Capital, the preferred shareholder of the company
Rongcheng Chengshan Property Co., Ltd.	Entity controlled by immediate holding company
Rongcheng Chengshan Energy-Saving Service Co., Ltd.	Entity controlled by immediate holding company

The English name of certain companies referred to in this Historical Financial information represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

(a) Transactions with related parties

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
<i>Continuing transactions</i>					
(i) Purchase of raw materials – Sinotruk	44,136	60,459	133,190	40,678	10,365
(ii) Purchase of utilities – Chengshan Group	154,997	155,570	185,826	50,879	29,263
(iii) Sale of goods – Sinotruk	145,344	168,567	271,866	58,794	95,259
(iv) Rental and estate management expenses payable – Rongcheng Chengshan Property Management Co., Ltd. – Chengshan Group	5,419 8,026	5,349 7,897	5,296 7,845	1,324 1,934	1,252 1,931
	13,445	13,246	13,141	3,258	3,183
(v) Service received – Rongcheng Chengshan Energy-Saving Service Co., Ltd.	3,630	8,954	7,814	1,927	1,756

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Non-continuing transactions</i>					
(vi) Interests payable					
– Sinotruk Capital	3,931	12,773	13,104	–	–
(vii) Inter-company transactions					
Loan granted to					
– Chengshan Group	300	3,859	–	–	–
Repayment of loans granted to					
– Chengshan Group	35,450	–	79,999	60,000	–
Loan from					
– Chengshan Group	42,107	–	–	–	–
– Chengshan Trade	29,304	86,571	–	–	–
	71,411	86,571	–	–	–
Repayment of loan to					
– Chengshan Trade	579,452	101	311,298	311,298	78,589
– Chengshan Group	13,197	–	7,271	6,533	22,084
	592,649	101	318,569	317,831	100,673
(viii) Employee benefits					
– Chengshan Group	–	15,888	–	–	–

Pursuant to the Chengshan Group's employee benefit plan, which was issued in 2016, at the year end of 2016, the Chengshan Group paid the amount of RMB15.9 million for Group's employees.

The Chengshan Group's employee benefit plan was terminated in 2017.

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.

(b) Balances with related parties

(i) Amounts due to related parties

Group	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i> <i>RMB'000</i>
<i>Current</i>				
Loans from related parties				
– Chengshan Trade	293,090	399,420	81,404	–
– Chengshan Group	35,029	37,421	28,348	5,304
	<u>328,119</u>	<u>436,841</u>	<u>109,752</u>	<u>5,304</u>
Dividend payable				
– Chengshan Group	–	–	85,585	82,257
Interest payable				
– Sinotruk Capital	3,931	12,773	12,428	12,065
Trade payable				
– Chengshan Group	14,358	21,154	41,501	54,139
	<u>346,408</u>	<u>470,768</u>	<u>249,266</u>	<u>153,765</u>

The balances of loan from related parties were unsecured, non-interest bearing and had no fixed repayment term as at 31 December 2015, 2016 and 2017 and 31 March 2018.

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

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i> <i>RMB'000</i>
RMB	14,358	21,154	127,086	136,396
USD	332,050	449,614	122,180	17,369
	<u>346,408</u>	<u>470,768</u>	<u>249,266</u>	<u>153,765</u>

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

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Less than 3 months	14,358	21,154	41,501	54,139
Company	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
				RMB'000
Dividend payable				
– Chengshan Group	–	–	85,585	82,257
Interest payable				
– Sinotruk Capital	3,931	12,773	12,428	12,065
	3,931	12,773	98,013	94,322

(ii) *Amounts due from related parties*

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
<i>Current</i>				
– Chengshan Trade (Non-trade balance)	3	3	–	–
– Chengshan Group (Non-trade balance)	76,140	79,999	–	–
– Sinotruk (Trade balance)	15,981	24,419	19,369	48,572
	92,124	104,421	19,369	48,572

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

	As at 31 December			As at
	2015	2016	2017	31 March
	RMB'000	RMB'000	RMB'000	2018
Less than 3 months	15,981	24,419	19,369	48,572

40 CONTINGENCIES

The Group received USD payment from customers of the Group's sales to Iran, Sudan and Syria during Track Record Period, which exposed the Group to potential violations of sanctions imposed by the United States of America ("U.S.") Treasury Department's Office of Foreign Assets Control ("OFAC"). The Group has filed voluntary self-disclosure ("VSD") to OFAC in light of the potential violations on 28 March 2018. As of the date of this report, the VSD is still under review by OFAC and based on all the facts and circumstances and the assessment of the Group's International Sanctions Legal Advisers, the Group is of the view that, the most likely results would be issuance by OFAC of a cautionary letter to close out the case without the imposition of any penalty; however, it is possible that a monetary fine of up to USD647,822 will be required if OFAC were to decide to impose an administrative penalty on the Group. According to the above assessment, the Directors do not consider it probable that the above administrative penalty will be imposed by OFAC and therefore no provision has been made in the consolidated financial statements for the contingent liabilities arising from the above potential violations during the Track Record Period.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2018 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2018.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as of 31 March 2018 as if the Global Offering had taken place on 31 March 2018.

The unaudited pro forma statement of adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 March 2018 or at any future dates following the Global Offering. The unaudited pro forma statement of adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2018 as set out in the Accountant’s Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2018⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2018	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾⁽⁴⁾	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of HK\$5.89 per Share	1,937,583	648,952	2,586,535	4.07	4.67
Based on an Offer Price of HK\$7.50 per Share	1,937,583	832,486	2,770,069	4.36	5.01

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2018 is extracted from the Accountant’s Report of the Company as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at 31 March 2018 of RMB2,000,543,000 with an adjustment for the intangible assets as at 31 March 2018 of RMB62,960,000.

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$5.89 per Share and HK\$7.50 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB11,796,000 which have been accounted for in the Group's consolidated statement of profit or loss prior to 31 March 2018) payable by the Company and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 635,000,000 Shares were in issue immediately upon completion of the Global Offering, which is assumed to be on 31 March 2018 for the purpose of the pro forma financial information, and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (4) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.8706. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.
- (5) Apart from the adjustments referred to in the preceding paragraphs, no adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 March 2018.

**B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO
FORMA FINANCIAL INFORMATION**

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Prinx Chengshan (Cayman) Holding Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Prinx Chengshan (Cayman) Holding Limited (formerly known as Prinx (Cayman) Holdings Limited) (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 March 2018, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 24 September 2018, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 March 2018 as if the proposed initial public offering had taken place at 31 March 2018. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 31 March 2018, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 March 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 September 2018

This appendix contains a summary of the Memorandum and Articles of Association of the Company. As the information set out below is in summary form, it does not contain all the information that may be important to potential investors.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 May 2015 under the Cayman Companies Law. The Company's constitutional documents consist of its Memorandum of Association ("**Memorandum**") and its Articles of Association ("**Articles**").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on September 10, 2018 with effect upon Listing. The following is a summary of certain provisions of the Articles.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue

of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors*(i) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (AA) resign;
- (BB) dies;
- (CC) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (DD) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (EE) he is prohibited from being or ceases to be a director by operation of law;
- (FF) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (GG) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (HH) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and the Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (AA) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (BB) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (CC) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (DD) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (EE) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(c) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(d) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and the Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(e) Meetings of member***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Extraordinary general meetings

Extraordinary general meetings may be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (A) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (B) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of the following, which shall be deemed ordinary business:

- (i) the declaration and sanctioning of dividends;
- (ii) the consideration and adoption of the accounts and balance sheets and the reports of the directors and auditors and other documents required to be annexed to the balance sheets;
- (iii) the election of directors in place of those retiring;
- (iv) the appointment of auditors;
- (v) the fixing of, or the determining of the method of fixing of the remuneration of the directors and of the auditors;
- (vi) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to paragraph (vii) below; and
- (vii) the granting of any mandate or authority to the Board to repurchase securities of the Company.

The shareholders of the Company may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

(vi) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(f) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise. Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:
- (AA) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (BB) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(h) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(k) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on May 22, 2015 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

The Company was incorporated in the Cayman Islands as an exempted company on May 22, 2015 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(b) Share Capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (AA) on or in respect of the shares, debentures or other obligations of the Company; or
 - (BB) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from the Listing Date.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the

terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on May 22, 2015. We have established a principal place of business in Hong Kong at Room 803B, 8/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong and we were registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on March 5, 2018. Ms. Lam Yuk Ling of TMF Hong Kong Limited at 36/F., Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong has been appointed as our agent for the acceptance of service of process and notices in Hong Kong.

As we are incorporated in the Cayman Islands, our operations are subject to the Memorandum of Association, the Articles of Association and the Companies Law. A summary of certain parts of the Memorandum of Association and the Articles of Association and relevant aspects of the Companies Law is set out in Appendix III in this prospectus.

2. Changes in the share capital of our Company

As of date of incorporation of our Company, our Company had an authorized share capital of US\$50,000.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- (a) As at the date of incorporation, one subscriber Share in our Company was allotted and issued as fully paid to the initial subscriber at par value. On June 23, 2015, the said subscriber's Share was transferred to Chengshan Group for cash at par value and the share transfer was legally completed on the same date.
- (b) As part of the Reorganization, on July 21, 2015, our Company entered into the Pre-IPO Share Subscription Agreement with Chengshan Group and Sinotruk Capital. On September 18, 2015, each Share of a par value of US\$0.01 in the authorized share capital of our Company was sub-divided into 200 Shares of par value of US\$0.00005 each, such that after the sub-division, the initial authorized share capital of US\$50,000 divided into 5,000,000 ordinary shares of US\$0.01 each became US\$50,000 divided into 1,000,000,000 ordinary shares of US\$0.00005 each. On the same day, 172,192,536 ordinary Shares in our Company was allotted and issued to Chengshan Group, for a consideration of US\$76,195,000.
- (c) On October 28, 2015, 63,400,000 authorized but unissued Shares were re-designated and re-classified as Series A Preferred Shares such that the share capital of the Company became US\$50,000 divided into 936,600,000 ordinary Shares of par value of US\$0.00005 each and 63,400,000 Series A Preferred Shares of par value of US\$0.00005 each.

- (d) Our Company allotted and issued 264,407,463 ordinary Shares and 63,400,000 Series A Preferred Shares to Chengshan Group and Sinotruk Capital, respectively, for a consideration of US\$117,000,000 and US\$40,000,000, respectively. The share subscriptions were all completed on October 29, 2015.
- (e) On January 1, 2018, the Series A Preferred Shares were converted to ordinary Shares.

Assuming that the Global Offering becomes unconditional, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), the issued share capital of our Company will be US\$31,750 divided into 635,000,000 Shares, fully paid or credited as fully paid, with 365,000,000 Shares remaining unissued.

Save as disclosed above and as set out in “5. Written resolutions of our Shareholders passed on September 10, 2018” in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in the share capital of our subsidiaries

Save as disclosed herein and as set out in “4. Reorganization” and “History, Reorganization and Corporate Structure” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Reorganization

For more details regarding the Reorganization, please refer to the section headed “History, Reorganization and Corporate Structure” in this prospectus.

5. Written resolutions of our Shareholders passed on September 10, 2018

Written resolutions of our Shareholders were passed on September 10, 2018 approving, among others, the following:

- (a) the Memorandum and Articles were conditionally adopted which will become effective upon the Listing;
- (b) conditional upon (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and Shares to be allotted and issued as mentioned in this prospectus including the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option; (bb) the Offer Price having been duly determined and the execution and delivery of the Hong Kong Underwriting Agreement on the date as specified in this prospectus; and (cc) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Sole Global Coordinator (for itself

and on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement (or any conditions as specified in this prospectus), in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived before such dates and times) and in any event not later than the date falling 30 days after the date of this prospectus:

- (i) the Global Offering and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to (aa) allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued pursuant to the exercise of the Over-allotment Option; (bb) implement the Global Offering and the listing of Shares on the Hong Kong Stock Exchange; and (cc) do all things and execute all documents in connection with or incidental to the Global Offering and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
- (ii) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might acquire Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or under the Global Offering or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal value not exceeding the sum of (aa) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding the Shares which may be allotted and issued under the Over-allotment Option), (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (vi) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first;
- (iii) a general unconditional mandate was given to our Directors to exercise all powers of our Company to buy-back on the Hong Kong Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding the Shares which may be allotted and issued under the Over-allotment Option),

until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first; and

- (iv) the general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company bought back by our Company pursuant to the mandate to buy-back Shares as referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering but excluding the Shares which may be allotted and issued under the Over-allotment Option.

6. Repurchase of Shares

This paragraph sets out information required by the Hong Kong Stock Exchange to be included in this prospectus relating to the repurchase by our Company of our own securities.

(a) Shareholder's approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on September 10, 2018, the Repurchase Mandate was given to our Directors authorizing any repurchase by our Company of Shares on the Hong Kong Stock Exchange, or any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association, the Companies Law or applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association, the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange. Subject to the foregoing, any repurchase by our Company may be made out of our funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of Shares made for the purpose of the repurchase. Any amount of premium payable on a purchase over the par value of the Shares to be repurchased must be made out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our share premium account.

(c) Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum of Association, the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us or our subsidiaries. Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum of Association, the Articles of Association, the Companies Law and any other applicable law of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of us is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a consequence of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person of our Company has notified us that he/she/it has a present intention to sell any Share to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the Deed of Non-competition;
- (b) the Deed of Indemnity;
- (c) the Hong Kong Underwriting Agreement;
- (d) the Pre-IPO Share Subscription Agreements;
- (e) the Pre-IPO Shareholders Agreements;
- (f) a cornerstone investment agreement dated September 18, 2018, entered into between our Company, 榮成市國有資本運營有限公司 (Rongcheng State-owned Capital Operation Co. Ltd.*), the Sole Sponsor and the Sole Global Coordinator pursuant to which 榮成市國有資本運營有限公司 (Rongcheng State-owned Capital Operation Co. Ltd.*) agreed to subscribe for such number of Offer Shares at the Offer Price that may be subscribed for in the amount of US\$17.8 million (rounded down to the nearest whole board lot of 500 Shares);

- (g) a cornerstone investment agreement dated September 18, 2018, entered into among our Company, Xingda International Holdings Limited, the Sole Sponsor and the Sole Global Coordinator pursuant to which Xingda International Holdings Limited agreed to subscribe for such number of Offer Shares at the Offer Price that may be subscribed for in the amount of US\$9.0 million (rounded down to the nearest whole board lot of 500 Shares); and
- (h) a cornerstone investment agreement dated September 18, 2018, entered into between our Company, Tong Wo Company Limited, the Sole Sponsor and the Sole Global Coordinator, pursuant to which Tong Wo Company Limited agreed to subscribe for such number of Offer Shares at the Offer Price that may be subscribed for in the amount of US\$5.0 million (rounded down to the nearest whole board lot of 500 Shares).

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, we were registered owner of the following trademarks which are material to our business:

No.	Trademarks	Class	Place of registration	Registered owner	Trademark number	Expiration date
1	 浦林成山 PRINX CHENGSHAN	12	Hong Kong	Prinx (Shandong) Tire	304421817	February 4, 2028
2	 澳通 AUSTONE	12	the PRC	Prinx (Shandong) Tire	1427425	July 27, 2020
3	 AUSTONE	12	the PRC	Prinx (Shandong) Tire	3333522	November 27, 2023
4	 FORTUNE	12	the PRC	Prinx (Shandong) Tire	3339379	November 27, 2023
5	 象远 XANG YUAN	12	the PRC	Prinx (Shandong) Tire	1006704	May 13, 2027
6	 CHENGSHAN	29	the PRC	Prinx (Shandong) Tire	143828	February 28, 2023
7	 CHENGSHAN	12	the PRC	Prinx (Shandong) Tire	7175794	November 6, 2020
8	 FORTUNE	12	the PRC	Prinx (Shandong) Tire	13543671	February 13, 2025
9	 浦林	12	the PRC	Prinx (Shandong) Tire	15456589	March 20, 2026
10	 PRINX	12	the PRC	Prinx (Shandong) Tire	15821059	November 20, 2026
11		12	the PRC	Prinx (Shandong) Tire	17427644	September 13, 2026
12	 PRINX CHENGSHAN	12	the PRC	Prinx (Shandong) Tire	19507927	May 13, 2027

As at the Latest Practicable Date, we have been authorized by Chengshan Group to use the following trademarks which have been registered or have been applied for registration in the PRC:

No.	Trademarks	Class	Country	Trademark registration/ application number	Licensor
1	EASTSTART	12	PRC	4305354	Chengshan Group
2	PRINX TIRES	12	PRC	25014637	Chengshan Group

As at the Latest Practicable Date, we have applied the following trademark in Hong Kong which is material to our business:

Trademark	Class	Applicant	Trademark application number	Application date
PRINX CHENGSHAN	12	Prinx (Shandong) Tire	304365513	December 12, 2017

(b) Patents

As at the Latest Practicable Date, we have registered the following patents in the PRC which are material to our business:

No.	Description of Patent	Type	Registered owner	Patent number	Registration period
1.	Bead flipping and rewinding machine (一種鋼絲包布重纏機)	Invention patent	Prinx (Shandong) Tire	ZL201210524426.8	20 years starting from December 10, 2012
2.	Method for measuring radial run-out degree of unvulcanized tire (一種未硫化輪胎徑向跳動度的測量處理方法)	Invention patent	Prinx (Shandong) Tire	ZL201010145937.X	20 years starting from April 10, 2010
3.	Borehole-type cooling calendaring roller (一種鑽孔式冷卻壓延輥)	Invention patent	Prinx (Shandong) Tire	ZL201010575080.5	20 years starting from November 24, 2010

No.	Description of Patent	Type	Registered owner	Patent number	Registration period
4.	Measuring device for the length of tire belt (一種輪胎帶束層長度檢測裝置)	Invention patent	Prinx (Shandong) Tire	ZL201511006506.4	20 years starting from December 29, 2015
5.	Tread pattern for high-pass radial tire (高通過性子午線輪胎胎面花紋)	Invention patent	Prinx (Qingdao)	ZL201410246920.1	20 years starting from June 5, 2014
6.	Tire with irregular-shaped bead (異形胎圈的輪胎)	Invention patent	Prinx (Qingdao)	ZL201510091719.5	20 years starting from February 28, 2015
7.	Roller for tire building machine (一種輪胎成型機壓輥)	Utility patent	Prinx (Shandong) Tire	ZL201020643871.2	10 years starting from November 24, 2010
8.	Hole pricking device for single-layer carcass ply (一種單層胎體簾布的紮孔裝置)	Utility patent	Prinx (Shandong) Tire	ZL201020643863.8	10 years starting from November 24, 2010
9.	Colored line marking device for tire tread (一種輪胎胎面劃色線裝置)	Utility patent	Prinx (Shandong) Tire	ZL201020643845.X	10 years starting from November 24, 2010
10.	Cutting shear for tire ply cutting machine (一種輪胎束層裁斷機的裁刀裝置)	Utility patent	Prinx (Shandong) Tire	ZL201220672725.1	10 years starting from December 10, 2012
11.	Separating and recovering device for the air, oil and greasy dirt from pneumatic top-bolt internal mixer (一種氣動上頂栓密煉機回氣油污分離及回收裝置)	Utility patent	Prinx (Shandong) Tire	ZL201521114207.8	10 years starting from December 29, 2015
12.	Automatic cleaning device for dedusting pipeline of internal mixer (一種密煉機除塵管道自動清理裝置)	Utility patent	Prinx (Shandong) Tire	ZL201521114208.2	10 years starting from December 29, 2015

No.	Description of Patent	Type	Registered owner	Patent number	Registration period
13.	Cutting device for Mooney viscosity test film (一種門尼粘度試驗膠片的裁切裝置)	Utility patent	Prinx (Shandong) Tire	ZL201521114209.7	10 years starting from December 29, 2015
14.	Post-cure-inflation air-charging and centering device of tire vulcanizer (一種輪胎硫化機後充氣對中裝置)	Utility patent	Prinx (Shandong) Tire	ZL201521114212.9	10 years starting from December 29, 2015
15.	Centralized monitoring system for the lubrication of speed reducer (一種減速機潤滑集中監管系統)	Utility patent	Prinx (Shandong) Tire	ZL201521114216.7	10 years starting from December 29, 2015
16.	Bubble-lacerating device for Γ-shaped calendar (一種Γ型壓延機割氣泡裝置)	Utility patent	Prinx (Shandong) Tire	ZL201521114218.6	10 years starting from December 29, 2015
17.	Online detecting device for tire crown belt defect (一種輪胎冠帶簾布缺陷在線檢測)	Utility patent	Prinx (Shandong) Tire	ZL201521116206.7	10 years starting from December 29, 2015
18.	Dust removing device for cotton yarn exhaust line (一種棉紗排氣線除塵裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252206.4	10 years starting from November 22, 2016
19.	Controlling device for the unwinding of tire tread (一種輪胎胎面導開控制裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252245.4	10 years starting from November 22, 2016
20.	Protection device for the pressure breakthrough and drop-out of vulcanizing machine (一種硫化機串壓、掉壓保護裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252207.9	10 years starting from November 22, 2016
21.	Pressure-compensation-type capsule vulcanization mold device (一種壓力補償式膠囊硫化模具裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252205.X	10 years starting from November 22, 2016

No.	Description of Patent	Type	Registered owner	Patent number	Registration period
22.	Mechanical steering roller for film segmentation (一種膠片分割機械式糾偏輓)	Utility patent	Prinx (Shandong) Tire	ZL201621252251.X	10 years starting from November 22, 2016
23.	Tire coronal strip export and material detection device (一種輪胎冠帶條導出及探料裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252208.3	10 years starting from November 22, 2016
24.	Cleaning device for pressed and piled-up materials in internal mixer (一種密煉機壓料坨積料清理裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252483.5	10 years starting from November 22, 2016
25.	Metal impurities removing device (一種金屬雜質去除裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252485.4	10 years starting from November 22, 2016
26.	Rubber-oil mixture separating device (一種膠油混合物分離裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621252486.9	10 years starting from November 22, 2016
27.	Rubber solutions management device for rubber cooling machine (一種膠冷機膠案管理裝置)	Utility patent	Prinx (Shandong) Tire	ZL201621259349.8	10 years starting from November 23, 2016
28.	Vehicle for transporting and storing unvulcanized green tire (一種未硫化輪胎胎胚運輸存儲車)	Utility patent	Prinx (Shandong) Tire	ZL201020643882.0	10 years starting from November 24, 2010
29.	Hole pricking device for pre-composite part of side wall and inner liner (一種輪胎胎側與內襯層預複合件的紮孔裝置)	Utility patent	Prinx (Shandong) Tire	ZL201220672722.8	10 years starting from December 10, 2012

As at the Latest Practicable Date, we have applied for the following patents in the PRC which are material to our business:

No.	Description of Patent	Type	Applicant	Patent application number	Application Date
1.	Tire rough barcode positioning placer (一種輪胎胎胚條形碼定位放置器)	Invention patent	Prinx (Shandong) Tire	2017112372723	November 30, 2017
2.	Tire rough barcode positioning placer (一種輪胎胎胚條形碼定位放置器)	Utility patent	Prinx (Shandong) Tire	2017216397227	November 30, 2017
3.	Tire slip guiding bracket (一種輪胎滑落導開架)	Invention patent	Prinx (Shandong) Tire	2017112386533	November 30, 2017
4.	Tire slip guiding bracket (一種輪胎滑落導開架)	Utility patent	Prinx (Shandong) Tire	2017216402244	November 30, 2017
5.	PV grid-connected power factor adjusting device (一種光伏發電併網點功率因數調節裝置)	Invention patent	Prinx (Shandong) Tire	2017112386641	November 30, 2017
6.	PV grid-connected power factor adjusting device (一種光伏發電併網點功率因數調節裝置)	Utility patent	Prinx (Shandong) Tire	2017216402511	November 30, 2017
7.	Rubber brick feeding conveyer (一種膠塊餵料輸送機)	Invention patent	Prinx (Shandong) Tire	2017112372140	November 30, 2017
8.	Rubber brick feeding conveyer (一種膠塊餵料輸送機)	Utility patent	Prinx (Shandong) Tire	2017216385412	November 30, 2017
9.	Tire barcode disc supporting device (一種輪胎條形碼碼盤支撐裝置)	Invention patent	Prinx (Shandong) Tire	2017112391828	November 30, 2017
10.	Tire barcode disc supporting device (一種輪胎條形碼碼盤支撐裝置)	Utility patent	Prinx (Shandong) Tire	2017216385821	November 30, 2017
11.	Rubber tire mould with removable matrix (一種可拆裝字模的橡膠輪胎模具)	Invention patent	Prinx (Shandong) Tire	2017112386618	November 30, 2017
12.	Rubber tire mould with removable matrix (一種可拆裝字模的橡膠輪胎模具)	Utility patent	Prinx (Shandong) Tire	2017216385906	November 30, 2017
13.	Film separator coating device (一種膠片隔離劑塗附裝置)	Invention patent	Prinx (Shandong) Tire	2017112391438	November 30, 2017
14.	Film separator coating device (一種膠片隔離劑塗附裝置)	Utility patent	Prinx (Shandong) Tire	2017216385997	November 30, 2017

No.	Description of Patent	Type	Applicant	Patent application	
				number	Application Date
15.	Cutting tread turning and loading device (一種裁斷胎面翻轉、裝車裝置)	Invention patent	Prinx (Shandong) Tire	2017112373463	November 30, 2017
16.	Cutting tread turning and loading device (一種裁斷胎面翻轉、裝車裝置)	Utility patent	Prinx (Shandong) Tire	2017216402070	November 30, 2017
17.	Air conditioning system with steam residual heat recovery function (一種蒸汽餘熱回收利用的空調系統)	Invention patent	Prinx (Shandong) Tire	2017112391527	November 30, 2017
18.	Air conditioning system with steam residual heat recovery function (一種蒸汽餘熱回收利用的空調系統)	Utility patent	Prinx (Shandong) Tire	2017216402390	November 30, 2017
19.	Curtain roll lifting device (一種簾布輓吊裝裝置)	Invention patent	Prinx (Shandong) Tire	2017112391298	November 30, 2017
20.	Curtain roll lifting device (一種簾布輓吊裝裝置)	Utility patent	Prinx (Shandong) Tire	2017216402386	November 30, 2017
21.	Steam water discharge device (一種蒸汽疏水裝置)	Invention patent	Prinx (Shandong) Tire	2017112391141	November 30, 2017
22.	Steam water discharge device (一種蒸汽疏水裝置)	Utility patent	Prinx (Shandong) Tire	2017216402193	November 30, 2017
23.	Pneumatic safety chuck (一種氣動安全夾頭)	Invention patent	Prinx (Shandong) Tire	2017112391118	November 30, 2017
24.	Pneumatic safety chuck (一種氣動安全夾頭)	Utility patent	Prinx (Shandong) Tire	2017216402066	November 30, 2017
25.	Tire (T938) (輪胎(T938))	Appearance patent	Prinx (Qingdao)	2017305628312	November 15, 2017
26.	Tire (T928) (輪胎(T928))	Appearance patent	Prinx (Qingdao)	201730563541X	November 15, 2017
27.	Tire (MT308) (輪胎(MT308))	Appearance patent	Prinx (Qingdao)	2017305635424	November 15, 2017
28.	Tire (T113) (輪胎(T113))	Appearance patent	Prinx (Shandong) Tire	2017305637504	November 15, 2017
29.	Tire (T105) (輪胎(T105))	Appearance patent	Prinx (Shandong) Tire	2017305637491	November 15, 2017
30.	Tire (T221) (輪胎(T221))	Appearance patent	Prinx (Shandong) Tire	2017305637487	November 15, 2017
31.	Tire (PETROMAXPTSCH011) (輪胎 (PETROMAXPTSCH011))	Appearance patent	Prinx (Shandong) Tire	201730563735X	November 15, 2017

No.	Description of Patent	Type	Applicant	Patent application number	Application Date
32.	Tire (PETROMAXPTSCH012) (輪胎 (PETROMAXPTSCH012))	Appearance patent	Prinx (Shandong) Tire	2017305637345	November 15, 2017
33.	Tire (PETROMAXPTSCH010) (輪胎 (PETROMAXPTSCH010))	Appearance patent	Prinx (Shandong) Tire	2017305634440	November 15, 2017
34.	Tire (T327A) (輪胎(T327A))	Appearance patent	Prinx (Shandong) Tire	2017305634328	November 15, 2017
35.	Tire (CSR69) (輪胎(CSR69))	Appearance patent	Prinx (Shandong) Tire	2017305629955	November 15, 2017
36.	Tire (PETROMAXPTSCH008) (輪胎 (PETROMAXPTSCH008))	Appearance patent	Prinx (Shandong) Tire	2017305629917	November 15, 2017
37.	Tire (PETROMAXPTSCH013) (輪胎 (PETROMAXPTSCH013))	Appearance patent	Prinx (Shandong) Tire	2017305629796	November 15, 2017
38.	Tire (PETROMAXPTSCH009) (輪胎 (PETROMAXPTSCH009))	Appearance patent	Prinx (Shandong) Tire	2017305629809	November 15, 2017

(c) *Domain names*

As at the Latest Practicable Date, our Group was the registered owner of the following domain names, which are material to our business:

No.	Domain name	Registered owner	Expiry date
1.	prinxtire.com	Prinx (Shandong) Tire	December 1, 2020
2.	prinxchengshan.com	Prinx (Shandong) Tire	November 26, 2020
3.	chengshantire.com	Prinx (Shandong) Tire	April 27, 2019
4.	austonetire.com	Prinx (Shandong) Tire	April 27, 2019
5.	fortunetire.com.cn	Prinx (Shandong) Tire	March 25, 2019

Save as disclosed above, as at the Latest Practicable Date, there were no other intellectual property rights which are material to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

Directors

Disclosure of interests – interests and short positions of our Directors in the share capital of the Company following the completion of the Global Offering

The following table sets out the interests of our Directors and our chief executive immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised) in the Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed:

<u>Name of Director/ Chief Executive</u>	<u>Capacity/Nature of interest</u>	<u>Relevant company</u>	<u>Number of shares held</u>	<u>Approximate shareholding percentage after the Global Offering (assuming the Over-allotment Option is not exercised)</u>
Che Baozhen	Interest in controlled corporation/spouse interest	Chengshan Group	436,600,000	68.76%
Che Hongzhi	Interest in a controlled corporation/spouse interest	Chengshan Group	436,600,000	68.76%
Wang Lei	Interest in a controlled corporation	Chengshan Group	35,284,300	5.56%
Shi Futao	Interest in a controlled corporation	Chengshan Group	32,416,200	5.10%

Substantial Shareholders

- (a) Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering have an interest or short position in the Shares or underlying Shares which are required to be disclosed to our Company and the Hong Kong Stock Exchange under the provision of Division 2 and 3 of Part XV of the SFO, or directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.
- (b) As of the Latest Practicable Date, so far as is known to our Directors, the following persons were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of our Group:

Name of Substantial Shareholder	Number of shares held	Approximate shareholding percentage after the Global Offering (assuming the Over-allotment Option is not exercised)
Chengshan Group	436,600,000	68.76%
Che Baozhen	436,600,000	68.76%
Bi Wenjing	436,600,000	68.76%
Che Hongzhi	436,600,000	68.76%
Li Xiuxiang	436,600,000	68.76%
Beijing Baichuantong	436,600,000	68.76%
Beijing Zhongmingxin	436,600,000	68.76%
Rongcheng Chengda	436,600,000	68.76%
Rongcheng Chengshan Food	436,600,000	68.76%
Rongcheng Chenghai	436,600,000	68.76%
Rongcheng Chengyuan	436,600,000	68.76%
Rongcheng Dongsheng	436,600,000	68.76%
Rongcheng Haocheng	436,600,000	68.76%
Rongcheng Hongsheng	436,600,000	68.76%
Rongcheng Pucheng	436,600,000	68.76%

2. Particulars of service contracts and letters of appointment

Each of our executive Directors and non-executive Director has signed a service contract with our Company for an initial term of three years, commencing from Listing Date (subject to termination in certain circumstances as stipulated in the relevant service contract).

The annual remuneration payable to our executive Directors and Non-executive Director by our Group (excluding any discretionary bonus) is as follows:

<u>Name</u>	<u>Approximate annual salary</u> <i>(RMB)</i>
Che Baozhen	1,190,000
Shi Futao	955,000
Cao Xueyu	171,000
Che Hongzhi	228,000
Wang Lei	N/A
Chen Yansheng	N/A

Each of the independent non-executive Directors has signed a letter of appointment with our Company for an initial term of three years, commencing from Listing Date (subject to termination in certain circumstances as stipulated in the relevant letter of appointment). The annual remuneration payable to each of the independent non-executive Directors is as follows:

<u>Name</u>	<u>Approximate annual salary</u> <i>(HK\$)</i>
Choi Tze Kit Sammy	180,000
Zhang Xuehuo	150,000
Wang Chuansheng	120,000

Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any service contract or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without payment of compensation other than statutory compensation).

3. Director's remuneration

The remuneration payable by our Group to our Directors for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018, including salaries, housing and other benefits in kind, contributions to defined contribution benefit plans (including pensions) and discretionary bonuses, totalling approximately RMB3.35 million, RMB4.56 million, RMB3.48 million and RMB0.96 million, respectively.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and the benefits in kind receivable by, our Directors (excluding discretionary bonuses) for the year ending December 31, 2018 will be approximately RMB2.73 million.

4. Director's competing interests

Saved as disclosed in the section headed "Relationship with Controlling Shareholders" in this prospectus, none of our Directors are interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or the chief executive of our Company has, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), any interest or short position in the Shares, underlying Shares or debentures of our Company or any of our associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) so far as our Directors are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), no person (other than a Director or chief executive of our Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors or the experts referred to in “D. Other Information – 7. Qualifications of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any asset which was within the two years immediately preceding the date of this prospectus acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the experts referred to in “D. Other Information – 7. Qualifications of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole; and
- (e) so far as our Directors are aware, none of our Directors, their respective close associates or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in the five largest customers and/or suppliers of our Group.

D. OTHER INFORMATION**1. Tax, estate duty and other indemnity**

Chengshan Group and the Che Family (collectively, the “**Indemnifiers**”) have, under a deed of indemnity referred to in paragraph (d) of the section headed “B. Further information about our business – 1. Summary of material contracts” in this Appendix, given joint and several indemnities to our Company for itself and as trustee for our subsidiaries in connection with, among other things, (a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Global Offering becomes unconditional; (b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which Global Offering becomes unconditional; or (ii) in respect or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Global Offering becomes unconditional; (c) any penalties, claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any non-compliances, defects, administrative orders, litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings, including any penalties for violations of the U.S. sanctions regulations instituted by or against any member of our Group in relation to events occurred on or before the date on which the Global Offering becomes unconditional. The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such taxation liability in the audited consolidated financial statements of any member of our Group for the years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018; or
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Global Offering becomes unconditional; or
- (c) the taxation liability arises in the ordinary course of business of our Group after March 31, 2018 up to and including the date on which the Global Offering becomes unconditional.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Group.

2. Litigation

Except as disclosed in this prospectus, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against us and that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary expenses

The preliminary expenses paid or suggested to pay in relation to the incorporation of our Company were approximately US\$17,000 and were paid by us.

4. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

5. Application for listing

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares to be issued as mentioned in this prospectus and any Share which may be issued upon exercise of the Over-allotment Option. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

6. Sole Sponsor

The Sole Sponsor is independent of our Company pursuant to Rule 3A.07 of the Listing Rules. The total amount of fees payable by our Company to the Sole Sponsor is US\$600,000.

7. Qualifications of experts

The qualifications of the experts who have given their opinion and/or whose names are included in this prospectus are as follows:

<u>Name</u>	<u>Qualifications</u>
BOCI Asia Limited	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under SFO
King & Wood Mallesons	Legal advisors to our Company as to PRC law
Ogier	Legal advisors to our Company as to Cayman Islands law

<u>Name</u>	<u>Qualifications</u>
Hogan Lovells	Legal advisors as to International Sanctions law
Ben & Partners	Legal advisors to our Company as to Malaysia law
PricewaterhouseCoopers	Certified public accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

8. Consents of experts

Each of the experts listed in the preceding paragraph has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. No material adverse change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since March 31, 2018, being the date to which the latest audited consolidated financial statements of our Group were made up.

11. Miscellaneous

Save as otherwise disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

- (c) within the two years preceding the date of this prospectus, no commission has been paid or is payable (save for the underwriting commission to the Underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscription, for any Share in our Company;
- (d) neither our Company nor any of our subsidiaries has issued or agreed to issue any founder share, management share or deferred share;
- (e) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (f) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (g) our Company has no outstanding convertible debt securities or debentures;
- (h) there is no arrangement under which future dividends are waived or agreed to be waived;
- (i) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus; and
- (j) save in connection with the Underwriting Agreements, none of the experts listed in the paragraph “Qualifications of experts” in this appendix:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

12. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW AND GREEN** Application Forms;
- (b) copies of each of the material contracts referred to in “Statutory and General Information – B. Further information about our business – 1. Summary of material contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the paragraph headed “Statutory and General Information – D. Other Information – 8. Consents of experts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of King & Wood Mallesons at 13th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the accountant’s report from PricewaterhouseCoopers, the text of which is set out in “Accountant’s Report” in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for the years ended December 31, 2015, 2016, 2017;
- (d) the audited consolidated financial statements of our Group for the three months ended March 31, 2018;
- (e) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information of our Group, the text of which is set out in “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus;
- (f) the letter of advice prepared by Ogier summarizing certain aspects of Cayman Companies Law referred to in “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus;
- (g) the legal memorandum issued by Hogan Lovells, legal advisors to the Company as to International Sanctions law;
- (h) the legal memorandum issued by King & Wood Mallesons, legal advisors to the Company as to PRC law;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF
 COMPANIES AND AVAILABLE FOR INSPECTION**

- (i) the legal memorandum issued by Ben & Partners, legal advisors as to Malaysia law;
- (j) the material contracts referred to in “Statutory and General Information – B. Further information about our business – 1. Summary of material contracts” in Appendix IV to this prospectus;
- (k) the written consents referred to in “Statutory and General Information – D. Other Information – 8. Consents of experts” in Appendix IV to this prospectus;
- (l) the service contracts and appointment letters referred to in “Statutory of General Information – C. Further information about our Directors and chief executive – 2. Particulars of service contracts and letters of appointment” in Appendix IV to this prospectus;
- (m) the Companies Law; and
- (n) the Frost & Sullivan Report.

**Prinx Chengshan (Cayman)
Holding Limited**

浦林成山(開曼)控股有限公司