



百得利控股有限公司 BetterLife Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6909



Global Offering

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



IMPORTANT

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



BetterLife Holding Limited 百得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

| | |
|--------------------------------------|--|
| Total Number of Offer Shares | : 150,000,000 Shares (subject to the Over-allotment Option) |
| Number of Hong Kong Offer Shares | : 15,000,000 Shares (subject to reallocation) |
| Number of International Offer Shares | : 135,000,000 Shares (subject to reallocation and the Over-allotment Option) |
| Offer Price | : Not more than HK\$4.80 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) |
| Nominal value | : HK\$0.01 per Share |
| Stock code | : 6909 |

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



Co-Manager

uSMART Securities

盈立證券

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 "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 (WUMP) Ordinance. 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 other documents referred to above.

The Offer Price is expected to be determined by agreement between Macquarie, for itself and on behalf of Huatai and the Underwriters, and our Company on or before Thursday, July 8, 2021 or such later time as may be agreed between the parties, but in any event, no later than Saturday, July 10, 2021. If, for any reason, Macquarie, for itself and on behalf of Huatai and the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Saturday, July 10, 2021, the Global Offering will not proceed and will lapse immediately. The Offer Price will be not more than HK\$4.80 per Share and is expected to be not less than HK\$4.00 per Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$4.80 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price is lower than HK\$4.80. Macquarie, for itself and on behalf of Huatai and the Underwriters, may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering 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, notices of such reduction will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.blchina.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, in particular, for the risk factors, see "Risk Factors" in this prospectus.

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Offer Shares, Macquarie, for itself and on behalf of Huatai and the Hong Kong Underwriters, has the right in certain circumstances, in its absolute discretion, to terminate the obligations of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. For further details of the terms of the termination provisions, see "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — 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 of 1933 or any state securities law of the United States and may not be offered, sold, pledged or transferred within the United States, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

June 30, 2021

EXPECTED TIMETABLE^(NOTE 1)

Our Company will issue an announcement on the website of the Stock Exchange at www.hkex.com.hk and our website at www.blchina.com if there is any change in the following expected timetable of the Hong Kong Public Offering.

The application for the Hong Kong Offer Shares will commence on Wednesday, June 30, 2021 through Thursday, July 8, 2021, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, July 14, 2021. Investors should be aware that dealings in our Shares on the Stock Exchange are expected to commence on Thursday, July 15, 2021.

Hong Kong Public Offering commences 9:00 a.m. on Wednesday, June 30, 2021

Latest time to complete electronic applications under
White Form eIPO service through the designated
website at www.eipo.com.hk (note 4) 11:30 a.m. on Thursday, July 8, 2021

Application lists for the Hong Kong
Public Offering open (note 2) 11:45 a.m. on Thursday, July 8, 2021

Latest time for lodging **WHITE** and **YELLOW**
Application Forms and giving **electronic application instructions**
to HKSCC (note 3) 12:00 noon on Thursday, July 8, 2021

Latest time to complete payments for **White Form eIPO**
applications by effecting internet banking transfer(s) or
PPS payment transfer(s) 12:00 noon on Thursday, July 8, 2021

Application lists close (note 2) 12:00 noon on Thursday, July 8, 2021

Expected Price Determination Date (note 6) Thursday, July 8, 2021

Announcement of the Offer Price, the indications of
the level 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
to be published at the websites of the Stock Exchange
at www.hkexnews.hk and the Company at
www.blchina.com on or before (note 7) Wednesday, July 14, 2021

Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of channels
(See "How to Apply for Hong Kong Offer Shares —
F. Publication of Results") from Wednesday, July 14, 2021

EXPECTED TIMETABLE^(NOTE 1)

- 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” Wednesday, July 14, 2021
- Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before (notes 5 & 8) Wednesday, July 14, 2021
- Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on (notes 9 to 11) Wednesday, July 14, 2021
- White Form e-Refund payment instructions/refund checks in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be dispatched on (notes 7 to 12) Wednesday, July 14, 2021
- Dealings in Shares on the Main Board of the Stock Exchange to commence on 9:00 a.m. on Thursday, July 15, 2021

Notes:

- (1) All times refer to Hong Kong local time. For details of the structure of the Global Offering, including its conditions, see “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 8, 2021, the application lists will not open and close on that day. Further information is set out in “How to Apply for Hong Kong Offer Shares — E. Effect of bad weather and/or Extreme Conditions on the opening of the application lists”. If the application lists do not open and close on Thursday, July 8, 2021, the dates mentioned in this section may be affected. An announcement will be made by us in such event.
- (3) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares — A. Applications for Hong Kong Offer Shares — 5. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” for details.
- (4) 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 submitting 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 for submitting applications, when the application lists close.
- (5) Share certificates for the Hong Kong Offer Shares will become valid certificates of title at 8:00 a.m. on Thursday, July 15, 2021, provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates or before the Share certificates become valid certificates do so entirely at their own risk.
- (6) The Offer Price is expected to be determined by Thursday, July 8, 2021 but in any event, the expected time for determination of the Offer Price will not be later than Saturday, July 10, 2021. If, for any reason, the Offer Price is not agreed between Macquarie, for itself and on behalf of Huatai and the Underwriters, and our Company by Saturday, July 10, 2021, the Global Offering will not proceed and will lapse immediately.

EXPECTED TIMETABLE^(NOTE 1)

- (7) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund check.
- (8) Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required on their Application Forms may collect any refund check(s) and/or Share certificate(s) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, and may do so in person from 9:00 a.m. to 1:00 p.m. on Wednesday, July 14, 2021. Applicants being individuals who apply for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must attend by their authorized representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar must be produced at the time of collection.
- (9) Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required by their Application Forms may collect their refund check(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund check(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) For applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC, their refund (if any) will be credited to their designated bank account or the designated bank account of the designated CCASS Participant through which they made their application on Wednesday, July 14, 2021. For applicants who have instructed their designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on their behalf, they can check the amount of refund (if any) payable to them with that designated CCASS Participant. For applicants who have applied as CCASS Investor Participant, they can check the amount of refund (if any) payable to them via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, July 14, 2021 or in the activity statement showing the amount of refund money credited to their designated bank account made available to them by HKSCC immediately after the credit of refund money to their bank account. See "How to Apply for Hong Kong Offer Shares — I. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus for details.
- (11) For applicants who have applied for Hong Kong Offer Shares through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (where applicable) will be dispatched to their application payment bank account in the form of e-Refund payment instructions on Wednesday, July 14, 2021. For applicants who have applied for Hong Kong Offer Shares through the **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund check(s) will be dispatched on or before Wednesday, July 14, 2021 by ordinary post at their own risk. See "How to Apply for Hong Kong Offer Shares — I. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus for details.
- (12) Uncollected Share certificate(s) and refund check(s) will be dispatched by ordinary post at the applicants' own risk to the addresses specified on the relevant applications. For further details, see "How to Apply for Hong Kong Offer Shares — I. Dispatch/collection of Share Certificates and Refund Monies" in this prospectus.

EXPECTED TIMETABLE^(NOTE 1)

- (13) In case a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Wednesday, June 30, 2021 and Thursday, July 15, 2021, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of Share certificates and refund checks/**White Form eIPO** e-Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. You should carefully read the “Underwriting”, “Structure of the Global Offering”, and “How to Apply for Hong Kong Offer Shares” in this prospectus for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and/or Extreme Conditions and the dispatch of refund checks and Share certificates.

For details of the structure of the Global Offering, including the conditions thereof, see “Structure of the Global Offering” in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by BetterLife Holding Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security 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.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has 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 our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, any of the Underwriters, any of their respective directors, officers, employees, representatives or advisors or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide whether to invest in our Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in our Shares.

OVERVIEW

We are an automobile dealership service provider in China focusing on luxury and ultra-luxury brands. We ranked sixth among all ultra-luxury brand automobile dealership service providers in China as measured by revenue generated for the year ended December 31, 2020 with a market share of approximately 4.0%, according to the Frost & Sullivan Report. Passenger vehicle brands are categorized into four segments, namely ultra-luxury, luxury, medium-level and entry-level. See “Industry Overview — Overview of Passenger Vehicle Market in China — Market Segmentation” in this prospectus for details. The market share of ultra-luxury brand automobiles was approximately 2.9% within the automobile dealership industry in China in terms of revenue generated in 2020. As of the Latest Practicable Date, we operated 12 4S dealership stores for the brands of Porsche, Audi, Mercedes-Benz, Bentley, Volvo and Jaguar-Land Rover across six provinces and municipalities in China, namely Beijing, Tianjin, Shandong, Sichuan, Zhejiang and Guangdong. According to the Frost & Sullivan Report, these six provinces and municipalities were all among the top ten provincial-level regions in China in terms of the number of high-net-worth individuals in 2020, and had shown strong purchase power and demands for luxury and ultra-luxury automobiles.

We offer a comprehensive range of automobile-related products and services, including (i) sale of automobiles consisting of imported and domestically manufactured petroleum models. For the years ended December 31, 2018, 2019 and 2020, we sold a total of 14,113, 13,233 and 13,480 automobiles, respectively, among which approximately 60.0%, 58.4% and 55.7% were imported models, and approximately 40.0%, 41.6% and 44.3% were domestically manufactured models. During the Track Record Period, we also sold certain new energy vehicle models for Audi, Porsche, imported Volkswagen, JAC Volkswagen-Sihao and Volvo. For the years ended December 31, 2018, 2019 and 2020, the total number of new energy vehicles (including plug-in hybrid electric models and pure electric models) sold by our Group was 152, 664 and 635, respectively, which we consider insignificant to our dealership business as a whole; and (ii) after-sales services, which consist of repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and automobile license plate registration services. According to the Frost & Sullivan Report, both plug-in hybrid electric model and pure electric model are categorized as new energy vehicles under industry practice. We also provide other automobile-related value-added services to customers, such as automobile financing and pre-owned automobile brokerage services. We

SUMMARY

believe that our broad range of services allow us to build and maintain long-term relationships with our customers and establish a variety of revenue streams. Unlike direct sales outlets of automobile manufacturers, repair shops and spare parts retail centers, which only provide limited services to customers, our 4S dealership stores provide a full spectrum of automobile-related services from sales to after-sales services which cover the whole value chain in the automobile industry. By continuing to enhance customer satisfaction, we aim to become a one-stop provider of automobile products and services for our customers.

In 2000, we opened our first dealership store for Audi in Beijing and became one of the first dealers of Audi in China. In 2003, we opened our first dealership store for Porsche in Beijing, which was also the first Porsche 3S dealership store in China. Our success in the luxury and ultra-luxury brand automobile dealership segment is grounded in our in-depth understanding of the needs of luxury and ultra-luxury brand automobile purchasers, our effective marketing towards this group of customers and the high quality services we provide. We have established advanced information technology systems in our headquarters and across our 4S dealership stores as a uniform digital platform which integrates data and information relating to our customers and automobile brands. In 2016, we completed the roll-out of our ERP system, which maintains in one database the information needed for a variety of business functions, such as inventory, financial and human resources management. In addition to helping customers choose their preferred automobile models, we follow up with each customer and provide them with other after-sales and value-added services throughout the life cycle of their automobiles, including repair and maintenance, insurance and trading of used cars, in order to maintain customer relationships and cultivate further business opportunities.

Our revenue decreased from RMB8,409.2 million for the year ended December 31, 2018 to RMB8,178.8 million for the year ended December 31, 2019 primarily because revenue generated from our sales of automobiles decreased from RMB7,346.8 million for the year ended December 31, 2018 to RMB7,069.3 million for the year ended December 31, 2019, mainly due to the decrease in the sales volume of automobiles as a result of the transition of automobile models to fulfill the new requirements of the China Six Standard which have been implemented in Zhejiang, Sichuan, Guangdong and Shandong provinces and Tianjin since July 1, 2019, and in Beijing since January 1, 2020. As advised by our PRC Legal Advisor, after the implementation of the China Six Standard, the production and import of light-duty vehicles that only satisfy the China Five Standard are prohibited in China. A transition period, which is six months for Sichuan and three months for Beijing, Tianjin, Guangdong, Shandong and Zhejiang after the implementation of the China Six Standard, has been granted by the local governments. During the transition period, application for registration of vehicles that satisfy the China Five Standard was still accepted by the local government authorities. However, the implementation of the China Six Standard, which has set more stringent emission requirements for light-duty vehicles, has resulted in a transition between automobile models. This transition between models had a significant negative impact on the automobile sales performance of our dealership stores in 2019 as consumers were inclined to hold off purchase decisions until the transition was completed. We adopted a conservative approach when purchasing our inventory for 2019 because automobiles manufactured under the old emission requirements had to be all sold off before the end of 2019 before the new requirements took effect. These old model

SUMMARY

automobiles were often sold at reduced prices due to the scheduled transition. As our manufacturers just transitioned to models of automobiles that meet the new emission requirements as well, for a while the supplies of these new model automobiles available to us were limited in 2019. In addition, according to the Frost & Sullivan Report, as the China Six Standard was different from the emission standard set by the European Union, some of the imported automobile models that did not comply with China's emission standard were not allowed to enter China's market, which had led to a decrease in the volume of imported automobiles in China during the year of 2019. Meanwhile, automobile manufacturers are relatively more willing to supply the new automobiles, which comply with the emission requirements in China, to the dealers in areas where such new emission standard has been implemented. All of these factors contributed to the decrease in our sales for 2019 compared with 2018. Our revenue increased from RMB8,178.8 million for the year ended December 31, 2019 to RMB8,533.1 million for the year ended December 31, 2020 primarily because revenue generated from our sales of automobiles increased from RMB7,069.3 million for the year ended December 31, 2019 to RMB7,462.5 million for the year ended December 31, 2020 as a result of the ramp-up in the operation scale of our 4S dealership stores for Volvo and Jaguar-Land Rover and the launch of new models of Bentley in 2019, which stimulated the sales performance in 2020. Our net profit decreased from RMB270.2 million for the year ended December 31, 2018 to RMB224.9 million for the year ended December 31, 2019. Our net profit increased from RMB224.9 million for the year ended December 31, 2019 to RMB306.5 million for the year ended December 31, 2020. Our Adjusted Net Profit, which was prepared based on non-IFRS measures, increased by 3.3% from RMB218.3 million for the year ended December 31, 2018 to RMB225.5 million for the year ended December 31, 2019. Our Adjusted Net Profit, which was prepared based on non-IFRS measures, increased by 45.9% from RMB225.5 million for the year ended December 31, 2019 to RMB329.0 million for the year ended December 31, 2020.

Competitive Landscape of the Automobile Industry in the PRC

The automobile industry in the PRC is regulated by a series of laws, regulations or policies promulgated by relevant government authorities, which govern our business operations and may affect our financial performance. The growing new energy vehicle market may have an adverse impact on the market demand for petroleum vehicles in the luxury and ultra-luxury segments.

- *Overall favorable policies for the new energy vehicle market:* The PRC government has promulgated a series of favorable policies to promote the electric vehicle market. For example, pursuant to the Development Plan on New Energy Vehicle Industry (2021-2035) (新能源汽车产业发​​展规划 (2021-2035年)) released by the General Office of State Council in October 2020, the sales volume of electric vehicles is expected to represent approximately 20.0% of the total sales volume of new passenger vehicles in China in 2025. It is not a mandatory requirement but a direction for the development of the passenger vehicle market in China.

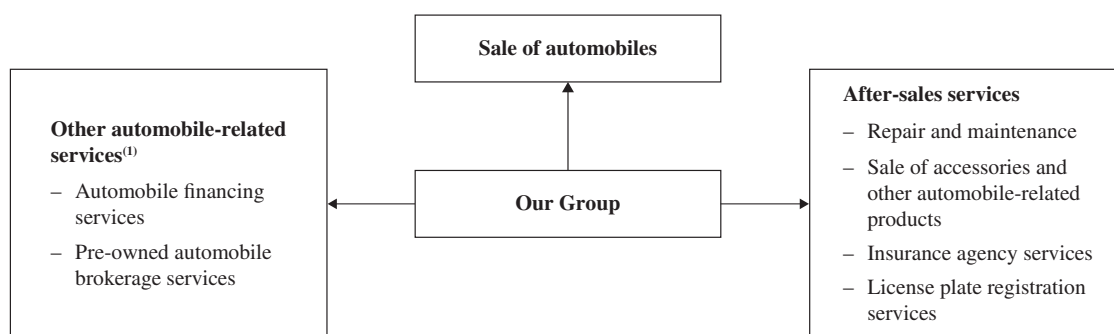
SUMMARY

- *Subsidies for new energy vehicles:* Series of laws and regulations in the PRC stipulated subsidies for new energy vehicles including (i) the Circular on Financial Support Policies on the Promotion and Application of New Energy Vehicles (2016-2020) (關於2016–2020年新能源汽車推廣應用財政支持政策的通知) issued on April 22, 2015; and (ii) the Circular on Adjusting the Fiscal Subsidy Policies to Promote the Use of New-Energy Vehicles (關於調整新能源汽車推廣應用財政補貼政策的通知) issued on December 29, 2016. In response, a growing number of traditional petroleum automobile manufacturers that operate luxury and ultra-luxury brands have started to develop and launch their own new energy vehicle models to capture market opportunities.
- *Restrictive measures on petroleum vehicles:* The PRC government also issued various restrictive measures on petroleum vehicles such as tightening automobile emission regulations and license plate restrictions that may limit the growth of the number of petroleum automobiles on the road. For details of the automobile emission regulations and license plate restrictions, see “Regulatory Overview – Regulations Relating to Vehicle Emission Standards in China”, “Regulatory Overview – Regulations Relating to Sales of New Automobiles – Regulations Relating to Adjusting and Controlling the Quantity of Vehicles”, “Business – Implications of Emission Regulations for the Automobile Industry” and “Business – Implications of Regulatory Restrictions on Automobile Ownership” in this prospectus.

We believe that the evolving regulatory environment, the new energy vehicle business and the fierce competition in the automobile industry in the PRC will continue to affect our business operations and prospects. For further details, see “Business – Overview – Competitive Landscape of the Automobile Industry in the PRC” in this prospectus.

OUR BUSINESS MODEL

The diagram below sets forth the operation model of our business:



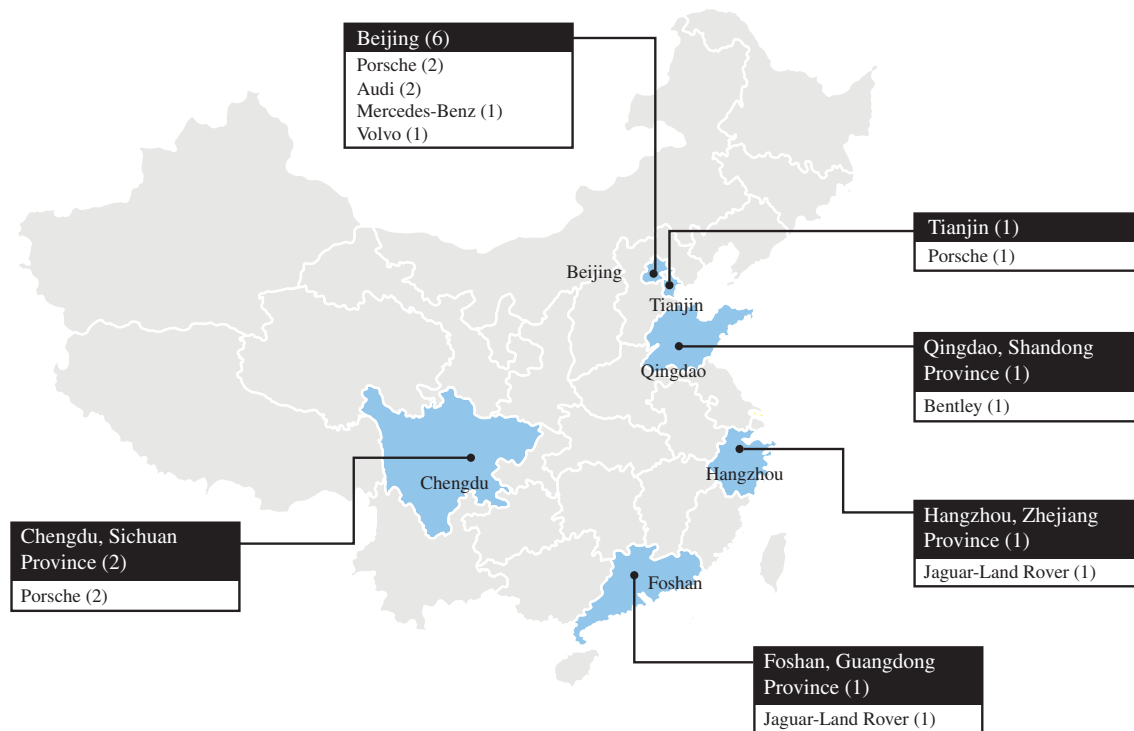
Note:

- (1) During the Track Record Period, we generated commission income from automobile financing and pre-owned automobile brokerage services, which were recognized as other income in our consolidated statements of profit or loss.

SUMMARY

We conduct our businesses through our network of manufacturer-authorized dealership stores. As of the Latest Practicable Date, we operated 12 4S dealerships across six provinces and municipalities in China, namely Beijing, Tianjin, Shandong, Sichuan, Zhejiang and Guangdong.

The map below illustrates the geographic coverage of the network of our existing 4S dealership stores as of the Latest Practicable Date:



OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and will continue to distinguish us from our competitors in the future: (i) we are a leading provider of automobile dealership services in the ultra-luxury brand automobile market in China; (ii) our standardized and centralized management enables us to efficiently operate and expand our business; (iii) we have a strategic network of 4S dealership stores covering affluent markets and fast-developing regions in China with strong growth potential in the luxury and ultra-luxury brand automobile segments; (iv) our customer-oriented business philosophy and comprehensive service offerings enable us to build a loyal long-term customer base; (v) leveraging our strong and stable relationships with European automobile manufacturers, we have built a well-balanced brand portfolio, which allows us to capture growth opportunities in the luxury and ultra-luxury automobile market; and (vi) we have a seasoned senior management team supported by experienced executives at our dealership stores.

SUMMARY

OUR STRATEGIES

We aim to strengthen our market position as a leading luxury and ultra-luxury automobile dealership service provider in China and to capture opportunities in the automobile market by pursuing the following strategies: (i) further expand our automobile dealership network and brand portfolio through organic growth and selective acquisitions; (ii) continue to maintain and upgrade our information technology systems to strengthen our operating capabilities, enhance customers' experience and increase our same-store sales growth; (iii) enhance our after-sales services and automobile-related value-added services to achieve fast business growth; (iv) further expand our new energy vehicle business to adapt to and capture the growing new energy vehicle market; and (v) continue to focus on the recruitment, training and retention of employees to support our future growth and expansion.

CUSTOMERS AND SUPPLIERS

Our customers are mainly high-net-worth individuals. During the Track Record Period, our major automobile suppliers were also our customers, primarily because we provided in-warranty repair services to them. During the Track Record Period, we sold automobiles to eCapital, which provided financial lease services to the ultimate automobile purchasers. eCapital is ultimately controlled by Mr. Chou, our executive Director and Controlling Shareholder. Other than eCapital, our top five customers during the Track Record Period are Independent Third Parties. Except for eCapital, none of our Directors, their associates or our current Shareholder (who, to the knowledge of our Directors, owns more than 5% of our share capital) has any interest in our top five customers that are required to be disclosed under the Listing Rules. For the years ended December 31, 2018, 2019 and 2020, revenue generated from our top five customers accounted for 3.5%, 4.3% and 4.0% of our total revenue, respectively. Given the nature of our business, our top five customers in aggregate accounted for less than 5.0% of our total revenue during the Track Record Period.

We purchase all of our new automobiles and substantially all of our spare parts and accessories from automobile manufacturers and their authorized suppliers, and we purchase our other automobile-related products from both automobile manufacturers and third parties. Our top five suppliers are automobile manufacturers that supply new automobiles and spare parts to us. For the years ended December 31, 2018, 2019 and 2020, purchases from our top five suppliers were RMB7.7 billion, RMB7.0 billion and RMB6.9 billion, representing 96.4%, 91.6% and 86.2%, of our total purchases, respectively, and purchases from our largest supplier were RMB4.0 billion, RMB4.1 billion and RMB3.9 billion, respectively, representing 49.6%, 53.4% and 48.5%, of our total purchases for the years ended December 31, 2018, 2019 and 2020, respectively. All of our top five suppliers are Independent Third Parties. None of our Directors, their associates or our current Shareholder (who, to the knowledge of our Directors, owns more than 5% of our share capital) has any interest in any of our top five suppliers that is required to be disclosed under the Listing Rules.

SUMMARY

INCENTIVE REBATES

Our costs of purchasing automobiles are materially affected by the rebates granted to us by automobile manufacturers. Our automobile manufacturers often provide us with volume-based rebates, which are decided with reference to certain criteria set by the relevant automobile manufacturers, including procurement and sales volume. The automobile manufacturers settle the rebates with us from time to time taking into account the above factors by cash or deducting the price payable by us in the subsequent purchases placed by us. Rebates, based on either procurement or sales volume, are recognized as receivables with a corresponding reduction to the cost of sales in the month during which the related automobiles are sold. For procurement-based rebates, they are recognized as receivables with a corresponding reduction to the book value of the related automobile inventory, which will be transferred to, and recognized as, cost of sales in the month in which the related inventory is sold. We usually estimate the rebates to be accrued based on the manufacturers' rebate policies and their assessment criteria prior to the confirmation of the relevant automobile manufacturer. Then, we declare the rebates in the rebate system of the corresponding manufacturer based on the actual procurement and/or sales volume. The estimated rebates are recorded at the end of each month. The manufacturer will review the rebates declared by us and settle the amount with us upon confirmation. For the years ended December 31, 2018, 2019 and 2020, we recorded rebates of RMB392.3 million, RMB351.4 million and RMB472.9 million, respectively, representing 5.3%, 5.0% and 6.3% of revenue from the sale of automobiles for the same years, respectively. See "Financial Information — Major Components of Our Results of Operations — Cost of Sales" and "Business — Our Business — Sale of Automobiles — Incentive Rebates from Automobile Manufacturers" in this prospectus for more information about the incentive rebates granted by automobile manufacturers.

There is no assurance that we will continue to receive incentive rebates from automobile manufacturers and we may encounter difficulties in recovering rebate receivables. For the years ended December 31, 2018, 2019 and 2020, we recorded rebates of RMB392.3 million, RMB351.4 million and RMB472.9 million, respectively, accounting for 5.3%, 5.0% and 6.3% of our revenue from the sales of automobiles for the same years, respectively. If we had not received the incentive rebates, we would have recorded gross losses from sales of automobiles for the years ended December 31, 2018, 2019 and 2020. If we fail to meet the performance targets set by the automobile manufacturers in the future, our rebates with reference thereto will be adversely affected. Should some or all automobile manufacturers cease to offer such rebates, or alter the conditions by which such rebates are granted, our financial condition and results of operations may be materially and adversely affected. See "Risk Factors — Risks Relating to Our Business — There is no assurance that we will continue to receive incentive rebates from automobile manufacturers and we may encounter difficulties in recovering rebate receivables" in this prospectus for details.

SUMMARY

SALES VOLUME BY BRAND

The table below sets forth the sales volume of and revenue generated from both imported and domestically manufactured automobile models by brand for the years indicated:

| | Year Ended December 31, | | | | | | | | | | | |
|--------------------------------|---------------------------|---------------------------------|------------------------------|---------------------------------|---------------------------|---------------------------------|------------------------------|---------------------------------|---------------------------|---------------------------------|------------------------------|---------------------------------|
| | 2018 | | | | 2019 | | | | 2020 | | | |
| | Imported | | Domestically Manufactured | | Imported | | Domestically Manufactured | | Imported | | Domestically Manufactured | |
| | Revenue <i>RMB'000</i> | Sales Volume <i>Units</i> | Revenue <i>RMB'000</i> | Sales Volume <i>Units</i> | Revenue <i>RMB'000</i> | Sales Volume <i>Units</i> | Revenue <i>RMB'000</i> | Sales Volume <i>Units</i> | Revenue <i>RMB'000</i> | Sales Volume <i>Units</i> | Revenue <i>RMB'000</i> | Sales Volume <i>Units</i> |
| Ultra-luxury brands | | | | | | | | | | | | |
| Porsche | 4,043,752 | 5,278 | - | - | 4,067,065 | 5,453 | - | - | 4,034,850 | 5,139 | - | - |
| Bentley | 59,666 | 26 | - | - | 61,932 | 24 | - | - | 80,657 | 30 | - | - |
| Luxury brands | | | | | | | | | | | | |
| Mercedes-Benz | 988,698 | 1,341 | 702,844 | 2,155 | 900,776 | 1,060 | 695,600 | 2,210 | 856,447 | 1,027 | 658,399 | 2,073 |
| Audi | 396,266 | 823 | 858,930 | 3,486 | 273,127 | 540 | 732,767 | 2,941 | 277,966 | 500 | 716,403 | 2,589 |
| Volvo | - | - | 502 | 2 | 32,633 | 69 | 87,661 | 340 | 79,761 | 173 | 240,181 | 935 |
| Jaguar-Land Rover | - | - | - | - | 5,929 | 8 | 1,688 | 7 | 313,208 | 396 | 86,397 | 364 |
| Medium-level brand | | | | | | | | | | | | |
| Imported Volkswagen | 296,092 | 1,002 | - | - | 209,420 | 573 | - | - | 116,951 | 242 | - | - |
| Entry-level brand | | | | | | | | | | | | |
| JAC Volkswagen-Sihao | - | - | - | - | - | - | 744 | 8 | - | - | 1,235 | 12 |
| Total | 5,784,474 | 8,470 | 1,562,276 | 5,643 | 5,550,882 | 7,727 | 1,518,460 | 5,506 | 5,759,840 | 7,507 | 1,702,615 | 5,973 |

BUSINESS RELATIONSHIP WITH PORSCHE

We rely on Porsche for a significant percentage of our business. For the years ended December 31, 2018, 2019 and 2020, the revenue generated from the sales of Porsche amounted to approximately 53.9%, 56.2% and 53.5% of the total revenue, and the gross profit generated from the sales of Porsche amounted to approximately 65.1%, 58.9% and 58.6% of the total gross profit. See “Business – Our Business – Business Relationship with Porsche” in this prospectus for details.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The table below sets forth a summary of our consolidated statement of profit or loss for the years indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|-----------------------|-----------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 8,409,178 | 8,178,781 | 8,533,130 |
| Cost of sales | <u>(7,583,982)</u> | <u>(7,396,583)</u> | <u>(7,669,517)</u> |
| Gross profit | 825,196 | 782,198 | 863,613 |
| Other income and gains | 232,896 | 140,271 | 168,481 |
| Selling and distribution expenses | (344,339) | (365,623) | (360,536) |
| Administrative expenses | (191,196) | (153,222) | (192,394) |
| Other expenses | (12,050) | (17,178) | (17,898) |
| Finance costs | <u>(83,549)</u> | <u>(56,242)</u> | <u>(41,054)</u> |
| Profit before tax | 426,958 | 330,204 | 420,212 |
| Income tax expense | <u>(156,775)</u> | <u>(105,316)</u> | <u>(113,721)</u> |
| Profit for the year | <u>270,183</u> | <u>224,888</u> | <u>306,491</u> |
| Attributable to: | | | |
| Owners of the parent | 206,951 | 159,857 | 234,984 |
| Non-controlling interests | <u>63,232</u> | <u>65,031</u> | <u>71,507</u> |
| Non-IFRS Measures: | | | |
| Profit for the year | 270,183 | 224,888 | 306,491 |
| Listing expenses | 3,750 | 589 | 22,558 |
| Tax expenses in relation to the Corporate | | | |
| Reorganization | 30,562 | – | – |
| Land compensation from lawsuit | (114,895) | – | – |
| Tax effect from adjustments | <u>28,724</u> | <u>–</u> | <u>–</u> |
| Adjusted Net Profit for the year | <u>218,324</u> | <u>225,477</u> | <u>329,049</u> |

SUMMARY

Non-IFRS Measures

Adjusted Net Profit, which was prepared based on non-IFRS measures, for the year is derived by (i) adding back the listing expenses and tax expenses in relation to the Corporate Reorganization that we incurred during the Track Record Period. Such tax expenses resulted from the two equity transfer transactions as disclosed in “History and Reorganization — Corporate Reorganization — 4. Disposal of Tianjin Guomao” in this prospectus; and (ii) excluding the compensation we received in 2018 in connection with a lawsuit relating to the land use rights of certain of our properties in Beijing and tax effect from such adjustments to profit for the year ended December 31, 2018, 2019 and 2020. For the year ended December 31, 2018, the one-off compensation of RMB114.9 million was recognized as other income in our consolidated statements of profit or loss, and was subject to the PRC enterprise income tax at a rate of 25.0%. The tax effect from adjustments of RMB28.7 million primarily represented the income tax attributable to such compensation. Adjusted Net Profit for the year is not prepared in accordance with IFRS. The amounts included in the Adjusted Net Profit for the year calculation, however, are derived from amounts included in the consolidated statements of profit or loss. We have presented Adjusted Net Profit for the year in this prospectus as we believe that it is a useful supplement to the consolidated statements of profit or loss because it enables us to measure our profitability without taking into consideration certain one-off or non-recurring items, including listing expenses and land compensation we received in 2018. However, Adjusted Net Profit for the year should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with IFRS, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the Adjusted Net Profit for the year measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation. The use of the Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. For details, see “Financial Information — Results of Operations — Non-IFRS Measures” in this prospectus.

Major Components of Our Results of Operations

Our revenue decreased by 2.7% from RMB8,409.2 million for the year ended December 31, 2018 to RMB8,178.8 million for the year ended December 31, 2019, primarily due to (i) a decrease in revenue generated from sales of automobiles mainly as a result of the intense competition in the passenger vehicle dealership market, especially for the brands of imported Volkswagen, Mercedes-Benz and Audi and the transition of automobile models to fulfill the China Six Standard which have been implemented in Zhejiang, Sichuan, Guangdong and Shandong provinces and Tianjin since July 1, 2019, and in Beijing since January 1, 2020; and (ii) a decrease in revenue generated from insurance agency services, primarily because the leading insurance companies lowered the maximum commission rates of automobile insurance, which were partially offset by an increase in revenue generated from repair and maintenance services due to the increase in the value of each transaction. Our revenue increased by 4.3% from RMB8,178.8 million for the year ended December 31, 2019 to RMB8,533.1 million for

SUMMARY

the year ended December 31, 2020, primarily due to (i) an increase in revenue generated from sales of automobiles as a result of the ramp-up in the operation scale of our 4S dealership stores for Volvo and Jaguar-Land Rover and the launch of new models of Bentley in 2019, which stimulated the sales performance in 2020; and (ii) an increase in revenue generated from sales of accessories and other automobile-related products primarily because we offered discounts or promotions to increase the sale of accessories and other automobile-related products. See “Financial Information — Period to Period Comparison of Results of Operations” in this prospectus for more details.

Our profit for the year decreased by 16.8% from RMB270.2 million for the year ended December 31, 2018 to RMB224.9 million for the year ended December 31, 2019, primarily due to a decrease in gross profit and other income and an increase in selling and distribution expenses. Our profit for the year increased by 36.3% from RMB224.9 million for the year ended December 31, 2019 to RMB306.5 million for the year ended December 31, 2020, primarily due to an increase in gross profit. For detailed analysis, see “Financial Information — Period to Period Comparison of Results of Operations” in this prospectus.

The table below sets forth the breakdown of our other income and gains for the years indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|-----------------------|-----------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| <i>Other Income</i> | | | |
| Interest income | 15,004 | 14,365 | 11,592 |
| Commission income | 77,171 | 89,162 | 102,171 |
| Rental income | 9,562 | 9,458 | 7,196 |
| Compensation income ⁽¹⁾ | 115,363 | 29 | 165 |
| Government grants ⁽²⁾ | 553 | 2,012 | 4,942 |
| Others ⁽³⁾ | 11,225 | 16,901 | 20,909 |
| <i>Gains</i> | | | |
| Gain on disposal of property, plant and equipment | 886 | 4,176 | 8,826 |
| Gain on disposal of financial assets at fair value through profit or loss | – | – | 500 |
| Investment income from financial assets at fair value through profit or loss | 3,132 | 4,168 | 9,936 |
| Gain on disposal of subsidiaries | – | – | 2,244 |
| Total | <u>232,896</u> | <u>140,271</u> | <u>168,481</u> |

SUMMARY

Notes:

- (1) For the year ended December 31, 2018, we received a one-off compensation of RMB114.9 million from a lawsuit in relation to the land use rights of certain properties in Beijing.
- (2) For the year ended December 31, 2020, the government grants we received in relation to the COVID-19 pandemic amounted to approximately RMB2.9 million.
- (3) Others mainly represent income from disposal of old automobile parts that were replaced during repair and maintenance, such as filters and tires, as well as used packaging materials and forfeited commitment deposits that we received from customers in connection with their planned purchase of new automobiles and/or after-sales services.

Other income and gains primarily consist of (i) interest income from our bank deposits and loans to related parties during the Track Record Period; (ii) commission income, which consists of income from other value-added services, including referring customers who require financing arrangements for purchasing automobiles and pre-owned automobile brokerage services, warranty extension services, and advertisement agency services; (iii) rental income, which represents the rental fees we received from the properties that we leased out to Independent Third Parties in Beijing and Tianjin; (iv) compensation income, which mainly represents the compensation we received from a contract-related lawsuit brought by us regarding the land use rights of certain properties in Beijing that we intended to obtain for using as the premises of new dealership stores; and (v) others. See “Financial Information — Major Components of Our Results of Operations — Other Income and Gains” in this prospectus for details.

During the Track Record Period, we primarily generated commission income from automobile financing and pre-owned automobile brokerage services, which were recognized as other income in our consolidated statements of profit or loss. Our business, results of operations and profitability are related to the amount of commission income we receive, which is determined based on the amounts and duration of the loans referred by us to customers in connection with their purchases of new automobiles, and the transaction value of the pre-owned automobiles under our pre-owned automobile brokerage business.

Our gross profit is materially affected in part by the incentive rebates that automobile manufacturers provide. These rebates are generally determined with reference to a number of factors, including the number of new automobiles we purchase and sell, customer satisfaction and other performance indicators as set by automobile manufacturers depending on their policies. For the years ended December 31, 2018, 2019 and 2020, we recorded rebates of approximately RMB392.3 million, RMB351.4 million and RMB472.9 million, respectively, representing approximately 5.3%, 5.0% and 6.3% of revenue from the sale of automobiles for the same years, respectively. The fluctuation in rebates as a percentage of revenue from the sale of automobiles during the Track Record Period was generally in line with the changes of sales volume in the respective periods. Incentive rebates relating to automobiles purchased and sold are deducted from cost of sales, while rebates relating to automobiles purchased but remained unsold as of December 31, 2018, 2019 and 2020 are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates. As a result, our results of operations and business are materially affected by the incentive rebates we obtain from automobile manufacturers.

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The table below sets forth the breakdown of revenue by geographic region for the years indicated:

| | Year Ended December 31, | | | | | |
|------------------------|-------------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Beijing | 5,552,646 | 66.0 | 5,213,699 | 63.7 | 5,134,193 | 60.2 |
| Tianjin | 648,265 | 7.7 | 578,849 | 7.1 | 531,445 | 6.2 |
| Chengdu | 1,793,561 | 21.3 | 2,055,740 | 25.1 | 2,209,102 | 25.9 |
| Qingdao | 204,347 | 2.4 | 170,596 | 2.1 | 178,532 | 2.1 |
| Weifang | 45,763 | 0.5 | 47,109 | 0.6 | 51,429 | 0.6 |
| Hangzhou | 164,596 | 2.0 | 112,788 | 1.4 | 428,429 | 5.0 |
| Total | <u>8,409,178</u> | <u>100.0</u> | <u>8,178,781</u> | <u>100.0</u> | <u>8,533,130</u> | <u>100.0</u> |

The table below sets forth the breakdown of our revenue by business segment for the years indicated:

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Sale of automobiles | | | | | | |
| – Ultra-luxury brands ⁽¹⁾ | 4,103,418 | 48.8 | 4,128,997 | 50.5 | 4,115,507 | 48.2 |
| – Luxury brands ⁽²⁾ | 2,947,240 | 35.0 | 2,730,181 | 33.4 | 3,228,762 | 37.8 |
| – Medium-level and entry-level brands ⁽³⁾ | <u>296,092</u> | <u>3.5</u> | <u>210,164</u> | <u>2.6</u> | <u>118,186</u> | <u>1.4</u> |
| Subtotal | <u>7,346,750</u> | <u>87.4</u> | <u>7,069,342</u> | <u>86.4</u> | <u>7,462,455</u> | <u>87.5</u> |
| After-sales services | | | | | | |
| – Repair and maintenance | 799,526 | 9.5 | 876,195 | 10.7 | 802,676 | 9.4 |
| – Sales of accessories and other automobile-related products | 192,417 | 2.3 | 191,701 | 2.3 | 227,597 | 2.7 |
| – Insurance agency services | 50,213 | 0.6 | 23,357 | 0.3 | 21,821 | 0.3 |
| – License plate registration services | <u>20,272</u> | <u>0.2</u> | <u>18,186</u> | <u>0.2</u> | <u>18,581</u> | <u>0.2</u> |
| Subtotal | <u>1,062,428</u> | <u>12.6</u> | <u>1,109,439</u> | <u>13.6</u> | <u>1,070,675</u> | <u>12.5</u> |
| Total | <u>8,409,178</u> | <u>100.0</u> | <u>8,178,781</u> | <u>100.0</u> | <u>8,533,130</u> | <u>100.0</u> |

SUMMARY

Notes:

- (1) Ultra-luxury brands include Porsche and Bentley.
- (2) Luxury brands include Mercedes-Benz, Audi, Volvo and Jaguar-Land Rover.
- (3) During the Track Record Period, we operated 4S dealership stores for imported Volkswagen, which is a medium-level brand, and JAC Volkswagen-Sihao, which is an entry-level brand of new energy automobiles. We disposed of the dealership stores for imported Volkswagen in December 2020 as we intended to focus our operations on luxury and ultra-luxury brands. Due to changes in operations and our strategy to focus our operations on luxury and ultra-luxury brands, we and the manufacturer of JAC Volkswagen-Sihao agreed to terminate the dealership agreements and close the 4S dealership stores for this brand in September 2020.

The table below sets forth the breakdown of revenue generated from the sale of automobiles, sales volume and average retail price by automobile brand for the years indicated:

| | Year Ended December 31, | | | | | | | | |
|--------------------------------|-------------------------|----------------------|---|-------------------------|----------------------|---|-------------------------|----------------------|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Revenue | Sales Volume | Average retail price ⁽¹⁾ | Revenue | Sales Volume | Average retail price ⁽¹⁾ | Revenue | Sales Volume | Average retail price ⁽¹⁾ |
| <i>RMB'000</i> | <i>Unit</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>Unit</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>Unit</i> | <i>RMB'000</i> | |
| Ultra-luxury brands | | | | | | | | | |
| Porsche | 4,043,752 | 5,278 | 766 | 4,067,065 | 5,453 | 746 | 4,034,850 | 5,139 | 785 |
| Bentley. | 59,666 | 26 | 2,295 | 61,932 | 24 | 2,581 | 80,657 | 30 | 2,689 |
| Luxury brands | | | | | | | | | |
| Mercedes-Benz | 1,691,542 | 3,496 | 484 | 1,596,376 | 3,270 | 488 | 1,514,846 | 3,100 | 489 |
| Audi | 1,255,196 | 4,309 | 291 | 1,005,894 | 3,481 | 289 | 994,369 | 3,089 | 322 |
| Volvo. | 502 | 2 | 251 | 120,294 | 409 | 294 | 319,942 | 1,108 | 289 |
| Jaguar-Land Rover | - | - | - | 7,617 | 15 | 508 | 399,605 | 760 | 526 |
| Medium-level brand | | | | | | | | | |
| Imported Volkswagen | 296,092 | 1,002 | 296 | 209,420 | 573 | 365 | 116,951 | 242 | 483 |
| Entry-level brand | | | | | | | | | |
| JAC Volkswagen-Sihao | - | - | - | 744 | 8 | 93 | 1,235 | 12 | 103 |
| Total | <u>7,346,750</u> | <u>14,113</u> | <u>520.6</u> | <u>7,069,342</u> | <u>13,233</u> | <u>534.2</u> | <u>7,462,455</u> | <u>13,480</u> | <u>553.6</u> |

Note:

- (1) The average retail price of automobiles under a particular brand is calculated on the basis of revenue attributable to automobiles under the brand for the year divided by sales volume of that brand for the same year.

SUMMARY

During the Track Record Period, we derived the majority of our gross profit from after-sales services. The table below sets forth the breakdown of our gross profit and gross profit margin by business segment for the years indicated:

| | Year Ended December 31, | | | | | |
|--|-------------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Sale of automobiles | 312,948 | 4.3 | 262,638 | 3.7 | 379,577 | 5.1 |
| After-sales services | | | | | | |
| Repair and maintenance ⁽¹⁾ | 350,963 | 43.9 | 392,506 | 44.8 | 368,030 | 45.9 |
| Sale of accessories and other automobile-related products . . | 102,743 | 53.4 | 101,899 | 53.2 | 97,748 | 42.9 |
| Insurance agency services | 42,700 | 85.0 | 10,743 | 46.0 | 4,628 | 21.2 |
| License plate registration services | 15,842 | 78.1 | 14,412 | 79.2 | 13,630 | 73.4 |
| Subtotal | 512,248 | 48.2 | 519,560 | 46.8 | 484,036 | 45.2 |
| Total | 825,196 | 9.8 | 782,198 | 9.6 | 863,613 | 10.1 |

Note:

(1) For the years ended December 31, 2018, 2019 and 2020, gross profit generated from in-warranty repair services was RMB18.6 million, RMB25.6 million and RMB37.3 million, respectively. For the same years, gross profit generated from out-of-warranty repair services was RMB332.3 million, RMB366.9 million and RMB330.7 million, respectively.

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The following table sets forth a breakdown of our gross profit and gross profit margin in relation to the sale of automobiles by brand for the years indicated:

| | Year Ended December 31, | | | | | |
|--------------------------------|-------------------------|---------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Ultra-luxury brands | | | | | | |
| Porsche | 318,075 | 7.9 | 229,634 | 5.6 | 260,248 | 6.5 |
| Bentley | 168 | 0.3 | 5,868 | 9.5 | 8,292 | 10.3 |
| Luxury brands | | | | | | |
| Mercedes-Benz | 51,731 | 3.1 | 72,376 | 4.5 | 92,666 | 6.1 |
| Audi | (50,256) | (4.0) | (35,691) | (3.5) | (359) | – |
| Volvo | 173 | 34.5 | (7,682) | (6.4) | 19,344 | 6.0 |
| Jaguar-Land Rover | – | – | (257) | (3.4) | (5,221) | (1.3) |
| Medium-level brand | | | | | | |
| Imported Volkswagen | (6,943) | (2.3) | (1,672) | (0.8) | 4,425 | 3.8 |
| Entry-level brand | | | | | | |
| JAC Volkswagen-Sihao | – | – | 62 | 8.3 | 182 | 14.7 |
| Total | <u>312,948</u> | <u>4.3</u> | <u>262,638</u> | <u>3.7</u> | <u>379,577</u> | <u>5.1</u> |

The table below sets forth a summary of our consolidated statements of financial position as of the dates indicated:

| | As of December 31, | | |
|---|-------------------------|-------------------------|-------------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Total non-current assets | 1,523,089 | 1,476,515 | 1,451,575 |
| Total current assets | 1,914,500 | 1,809,056 | 1,589,058 |
| Total current liabilities | 1,738,793 | 1,453,781 | 1,000,689 |
| Net current assets | 175,707 | 355,275 | 588,369 |
| Total assets less current liabilities | 1,698,796 | 1,831,790 | 2,039,944 |
| Total non-current liabilities | 386,155 | 347,726 | 345,758 |
| Net assets | 1,312,641 | 1,484,064 | 1,694,186 |
| Non-controlling interests | 171,779 | 190,810 | 166,169 |
| Total equity | <u>1,312,641</u> | <u>1,484,064</u> | <u>1,694,186</u> |

SUMMARY

As of December 31, 2018, 2019 and 2020, our intangible assets amounted to RMB561.9 million, RMB541.0 million and RMB549.1 million, respectively. Our principal identifiable intangible assets primarily relate to our software for ERP system and the dealership agreements in the PRC with various vehicle manufacturers acquired from third parties.

As of December 31, 2018, 2019 and 2020, the carrying amount of our goodwill allocated to the cash-generating unit of the operation of 4S dealership business amounted to RMB199.7 million, RMB199.7 million and RMB210.4 million, respectively. The goodwill recognized is primarily attributed to the expected business synergies arising from business acquisitions, which is not separately recognized.

The table below sets forth our cash flows for the years indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|----------------|------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash flows from operating activities | 607,631 | 520,732 | 790,295 |
| Net cash flows from/(used in) investing activities | 59,047 | (65,304) | (145,594) |
| Net cash flows used in financing activities . . | (743,471) | (330,169) | (788,546) |
| Net (decrease)/increase in cash and cash equivalents | (76,793) | 125,259 | (143,845) |
| Cash and cash equivalents at beginning of year | 326,107 | 249,315 | 374,721 |
| Effect of foreign exchange rate changes, net | 1 | 147 | (204) |
| Cash and cash equivalents at end of year . . | 249,315 | 374,721 | 230,672 |

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates and for the years indicated:

| | As of/For the Year Ended December 31, | | |
|------------------------------------|--|-------------|-------------|
| | 2018 | 2019 | 2020 |
| Profitability ratios | | | |
| Gross profit margin | 9.8% | 9.6% | 10.1% |
| Net profit margin | 3.2% | 2.7% | 3.6% |
| Return on assets | 7.9% | 6.8% | 10.1% |
| Return on equity | 20.6% | 15.2% | 18.1% |
| Liquidity ratio | | | |
| Current ratio | 1.1 | 1.2 | 1.6 |
| Quick ratio | 0.6 | 0.8 | 1.1 |
| Capital adequacy ratios | | | |
| Debt to equity ratio | 89.0% | 63.8% | 19.2% |
| Net debt to equity ratio | 64.1% | 34.8% | 3.8% |

SUMMARY

RISK FACTORS

Our operations and the Global Offering involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us and/or the value of your investment. See “Risk Factors” in this prospectus for details of our risk factors. Some of the major risks we face include: (i) the rapid growth of new energy automobile market could restrict the supply of and reduce the demand for gasoline-powered automobiles in China; (ii) limits imposed by the PRC government on the purchase of new automobiles may adversely affect our business and results of operations; (iii) changes and development in government policies concerning automobile sales and other automobile-related services could adversely affect our business, financial condition and results of operations; (iv) we rely on authorizations granted by automobile manufacturers to operate our 4S dealership stores. Any loss of such authorization would negatively affect our business operations and financial condition; (v) there is no assurance that we will continue to receive incentive rebates from automobile manufacturers and we may encounter difficulties in recovering rebate receivables; (vi) we generate a significant portion of revenue from sales of automobiles for a few major brands. Any deterioration of such brands or our relationships with such brands may materially and adversely affect our business, financial condition and results of operations; (vii) our business performance, financial condition and results of operations may be adversely affected by the outbreak of COVID-19; (viii) our revenue declined during the Track Record Period primarily due to the decrease in sales volume of automobiles, and our prospects are dependent on various factors, including but not limited to achieving revenue growth and our ability to cope with the fierce market competition from different market players; (ix) automobile manufacturers may impose restrictions on many different aspects of our business and operations and we rely on their support and cooperation for the successful operation of our business; (x) if we determine our intangible assets (other than goodwill) to be impaired, our results of operations and financial condition may be adversely affected; and (xi) goodwill impairment could adversely affect our results of operations.

DIVIDEND POLICY

Any amount of dividend we pay 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 which our Directors consider relevant. Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents and the Companies Act. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board. Historically, other than the dividends of RMB20.0 million, RMB46.0 million and RMB100.0 million paid to non-controlling shareholders of Chengdu Jinbao and Chengdu Xinbao for the years ended December 31, 2018, 2019 and 2020, respectively, we have not declared or paid any dividend to our Shareholder and there is no assurance that dividends of any amount will be declared or be distributed in any year. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio.

SUMMARY

LISTING EXPENSES

We expect to incur a total of RMB54.0 million of listing expenses (assuming an Offer Price of HK\$4.40, being the mid-point of the indicative Offer Price range between HK\$4.00 and HK\$4.80, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, which represents approximately 9.8% of the gross proceeds from the Global Offering. For the years ended December 31, 2018, 2019 and 2020, we incurred RMB35.7 million as listing expenses, of which approximately RMB26.9 million had been charged to our consolidated statements of profit or loss as administrative expenses and approximately RMB8.8 million will be capitalized upon the Listing. We expect to incur listing expenses of RMB18.3 million for the year ending December 31, 2021, of which approximately RMB6.2 million will be charged to our consolidated statements of profit or loss for the year ending December 31, 2021 and approximately RMB12.1 million will be capitalized upon the Listing. Listing expenses represent professional fees and other fees incurred in connection with the Listing, including underwriting commissions. The listing expenses above are the best estimate as of the Latest Practicable Date and for reference only and the actual amount may differ from this estimate. We do not expect such listing expenses to have a material impact on our results of operations for the year ending December 31, 2021.

GLOBAL OFFERING STATISTICS

| | Based on an Offer Price of HK\$4.00 per Share | Based on an Offer Price of HK\$4.80 per Share |
|--|--|--|
| Market capitalization of our Shares ⁽¹⁾ | HK\$2,400 million | HK\$2,880 million |
| Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽²⁾ | HK\$2.56 | HK\$2.77 |

Notes:

- (1) All statistics in this table are based on the assumption on that the Over-allotment Option is not exercised. The calculation of market capitalization is based on 600,000,000 Shares expected to be issued and outstanding following the completion of the Capitalization Issue and the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share as of December 31, 2020 is calculated after making the adjustments referred to in Appendix II and based on 600,000,000 Shares expected to be issued and outstanding following the completion of the Capitalization Issue and the Global Offering.

SUMMARY

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$627.4 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the Offer Price of HK\$4.40 per Offer Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 75.0%, or HK\$470.6 million, is expected to be used primarily for expanding our dealership store network through organic growth and, if suitable opportunities arise, through selective acquisitions. In particular, we expect to use 45.0%, or HK\$282.3 million, for acquiring other automobile dealership stores that operate luxury and ultra-luxury brands, including but not limited to, Porsche, Mercedes-Benz, BMW, Audi, Volvo, Jaguar-Land Rover, Bentley and Rolls-Royce in certain tier-one and tier-two cities in China with a large number of high-net-worth individuals. As of the Latest Practicable Date, we had not identified any definitive acquisition target or confirmed the number of dealership stores to be acquired or the timeframe involved. We had not entered into any legally binding agreement with respect to the acquisition of other dealership stores. We are in the preliminary stage of evaluating potential opportunities and have yet to complete any concrete feasibility studies. In addition, we expect to use 30.0%, or HK\$188.2 million for opening new 4S dealership stores. See “Business — Our Strategies — Further expand our automobile dealership network and brand portfolio through organic growth and selective acquisitions” in this prospectus for details;
- approximately 10.0%, or HK\$62.7 million, is expected to be used primarily for the renovation of our existing 4S dealership stores;
- approximately 5.0%, or HK\$31.4 million, is expected to be used primarily to optimize and upgrade our information technology systems; and
- approximately 10.0%, or HK\$62.7 million, is expected to be used to fund our working capital and general corporate purposes.

See “Future Plans and Use of Proceeds” in this prospectus for details.

In the event that the Offer Price is set at the high-end or low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, we will receive net proceeds of approximately HK\$687.4 million and HK\$567.4 million, respectively. Under such circumstances, our intended use of proceeds will be increased or decreased on a pro-rata basis.

SUMMARY

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to focus on sales of automobiles and after-sales services and our business operations remained stable. Our Directors confirmed that there were no material changes to our business model, revenue structure and cost structure.

From January 1 to April 30, 2021, our sales volume of automobiles was 4,768, compared to 2,932 for the same period of 2020. Such increase shows that the recent shortage of the chip supplies did not adversely affect our business operation or financial performance. We discontinued our pawn loan services and deregistered Yiwei Diandang in January 2021. See “History and Reorganization — Corporate Reorganization” and “Business — Our Business — Our Network” in this prospectus for details.

We currently expect that profit for the year ending December 31, 2021 may experience a decrease compared to the year ended December 31, 2020 (excluding listing expenses) due to the following factors that may have an adverse effect on our operating results for the year ending December 31, 2021: (i) the interest income from loans to related parties is expected to decrease from RMB10.6 million for the year ended December 31, 2020 to nil for the year ending December 31, 2021 after the loans were settled as of December 31, 2020; (ii) certain subsidies granted by the government in connection with the COVID-19 pandemic in 2020, which amounted to RMB2.9 million, are not expected to be granted in 2021; (iii) we received a large amount of compensation from the manufacturer of JAC Volkswagen-Sihao in 2020, which amounted to RMB3.1 million, due to the closure of the dealership stores, which was not recurring in nature; and (iv) the operating expenses are expected to increase in 2021 because the amount of contributions to the social insurance fund that we made for employees in 2020 was relatively lower than other years due to the special policies issued by the local government in light of the COVID-19 pandemic, while such favorable policies will not be implemented in 2021.

Impact of the COVID-19 Pandemic

Since December 2019, there has been an outbreak of COVID-19 that rapidly spread across China and around the world. Central and local governments in China implemented administrative measures to contain the virus, including restrictions on domestic and international travel, extension of public holidays, staggered work shifts, and cancellations of various events and activities that would involve public gatherings. We have resumed normal business operations since April 2020. To our best knowledge, all of our automobile suppliers/manufacturers resumed operations by the end of May 2020. During the COVID-19 outbreak, demands for passenger vehicles were significantly affected by the reduced consumer mobility. As a result, we received fewer orders from customers in the first quarter of 2020. Our total sales volume of automobiles decreased by approximately 32.9% from 2,822 units for the three months ended March 31, 2019 to 1,893 units for the three months ended March 31, 2020. In addition, the sales volume of Porsche, Mercedes-Benz and Audi decreased by approximately 5.8%, 5.2%, and 11.3% during 2020, respectively, as compared to the sales volume in 2019. Moreover, our revenue generated from repair and maintenance services decreased by RMB73.5

SUMMARY

million from 2019 to 2020, primarily due to the decrease in business volume as people reduced non-essential activities as a result of the COVID-19 concerns and the work hours of repair and maintenance services that were charged to customers decreased from approximately 333,498 hours for the year ended December 31, 2019 to approximately 294,999 hours for the year ended December 31, 2020. However, with the nation-wide resumption of work in China, the sales volume of passenger vehicles, especially the luxury and ultra-luxury brands, has gradually recovered since the third quarter of 2020. For the year ended December 31, 2020, the government grants we received in relation to the COVID-19 pandemic amounted to approximately RMB2.9 million.

Since the second quarter of 2020, except for some sporadic new cases in a limited number of cities, COVID-19 has been largely contained in China and our business operations have been normal. During the COVID-19 outbreak, we did not encounter any material shortage of supply of automobiles, especially the imported models. For the years ended December 31, 2019 and 2020, our sales volume of imported models was 7,727 units and 7,507 units, respectively, which remained relatively stable. As of December 31, 2020, the inventory of our imported automobile models was 427 units. In late 2020, after a third-party company in Beijing engaged in automobile spare part sales reported confirmed COVID-19 cases, certain auto parts packaging samples of our Mercedes-Benz dealership store in Beijing have tested positive for the COVID-19. All employees at our dealership stores of Mercedes-Benz, Porsche, Audi and Volvo, which are located in the same automobile park of Haidian district in Beijing, have conducted nucleic acid testing before the New Year's holidays of 2021. None of these employees have tested positive for the COVID-19. To better protect the safety and health of our employees and customers, (i) these dealership stores were temporarily closed from December 30, 2020 to January 12, 2021 and all employees of these dealership stores were required to stay home for 14 days of quarantine; and (ii) we thoroughly disinfected these dealership stores for a couple of times during the closing period. These dealership stores have resumed normal business operations since January 13, 2021.

In the event that all our business operations have to be suspended and assuming that (i) no revenue would be generated; (ii) all the staff would be retained; (iii) as of April 30, 2021, we had cash and cash equivalents of RMB269.1 million, cash in transit of RMB18.7 million, pledged deposits of RMB48.2 million and financial assets at fair value through profit or loss of RMB330.5 million which can be redeemed at any time; (iv) there would be no dividend payment; (v) our selling and distribution expenses and administrative expenses that we expect to incur each month would remain at comparative levels as during the year ended December 31, 2020; (vi) as of April 30, 2021, we had unutilized banking facilities of RMB1,077.0 million; (vii) we would repay the outstanding balance of our bank and other borrowings of RMB287.6 million as of April 30, 2021; and (viii) the availability of the net proceeds from the Global Offering of approximately HK\$62.7 million, equivalent to RMB52.2 million (representing approximately 10.0% of the net proceeds from the Global Offering based on the mid-point of the indicative Offer Price range of HK\$4.40 per Offer Share and assuming the Over-allotment Option is not exercised), our Directors are of the view that our Group would remain financially viable for at least 32 months from May 1, 2021.

SUMMARY

We have not had any suspected or confirmed COVID-19 cases in our corporate headquarters and dealership stores or among our employees. To prevent any spread of COVID-19 in our offices and stores, we have adopted detailed measures in line with guidance and policies issued by local governments. See “Business — Impact of the COVID-19 Pandemic — Our Contingency Plan and Response to the COVID-19 Pandemic” in this prospectus for details. It is uncertain when and whether the COVID-19 pandemic would completely go away. The above analyses are made by our management based on currently available information on COVID-19. We cannot assure you that COVID-19 will not spread again in China or that it will not have a material adverse effect on our business operations in the future. See “Risk Factors — Risks Relating to Our Business — Our business performance, financial condition and results of operations may be adversely affected by the outbreak of COVID-19” for details.

Except as disclosed above, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2020 (being the date on which the latest consolidated financial statements of our Group was prepared) and there is no event since December 31, 2020 which would materially affect the information shown in our consolidated financial statements included in Appendix I to this prospectus. During the same period, our results of operations were largely in line with our expectations.

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering, the Controlling Shareholders, namely Chou Dynasty, Red Dynasty and Mr. Chou, will together control the exercise of voting rights of 75% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of options granted under the Share Option Scheme). See “Relationship with Our Controlling Shareholders” for further details.

SHARE OPTION SCHEME

Our Company conditionally adopted the Share Option Scheme on June 17, 2021. Subject to our Shareholders’ approval on refreshing or granting options beyond the scheme mandate limit, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue as of the Listing Date, namely 60,000,000 Shares, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by our Company. The principal terms of the Share Option Scheme are summarized in “F. Share Option Scheme” in Appendix IV to this prospectus.

DEFINITIONS

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

| | |
|---|---|
| “Accountants’ Report” | the accountants’ report set out in Appendix I to this prospectus |
| “Adjusted Net Profit” | is derived by (i) adding back the listing expenses and tax expenses in relation to the Corporate Reorganization we incurred during the Track Record Period; and (ii) excluding the compensation income we received in 2018 in connection with a lawsuit relating to the land use rights of certain of our properties in Beijing and tax effect from such adjustments to profit for the years ended December 31, 2018, 2019 and 2020. It was used to measure our profitability without taking into account certain one-off and non-recurring items. For more details, see “Summary” and “Financial Information” in this prospectus |
| “affiliate(s)” | with respect to any specific person, 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 one of them, to the Hong Kong Public Offering |
| “Articles of Association” or “Articles” | the articles of association of our Company conditionally adopted on June 17, 2021 and as amended from time to time, a summary of which is set out in Appendix III to this prospectus |
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Audit Committee” | the audit committee of our Board |
| “B&L Motor” | B & L Motor Holding Co., Ltd. (百得利汽車控股有限公司), a company incorporated in the BVI on June 29, 2010, indirectly and legally owned by the trustee of the Chou Family Trust for the benefit of the beneficiaries of the Chou Family Trust (which includes Mr. Chou and his family members), and dissolved on August 12, 2020 |

DEFINITIONS

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| “Beijing BetterLife Auto” | Beijing BetterLife Auto Sales Co., Ltd.* (北京百得利汽車銷售有限公司), a PRC limited liability company established on April 14, 2008 and one of our wholly-owned subsidiaries |
| “Beijing BetterLife Auto Trade” | Beijing BetterLife Auto Trade Co., Ltd.* (北京百得利汽車貿易有限公司), a PRC limited liability company established on February 6, 2004 and one of our wholly-owned subsidiaries |
| “Beijing BetterLife Experimental” | Beijing BetterLife Experimental Technology Development Co., Ltd.* (北京百得利體驗科技發展有限公司), a PRC limited liability company established on August 16, 2018 and one of our wholly-owned subsidiaries |
| “Beijing BetterLife Group” | Beijing BetterLife Automobile Import and Export Group Co., Ltd.* (北京百得利汽車進出口集團有限公司), originally known as Beijing BetterLife Automobile Repairing Service Co., Ltd.* (北京百得利汽車修理服務有限公司), a PRC limited liability company established on September 3, 1998 and one of our wholly-owned subsidiaries |
| “Beijing BetterLife International” | Beijing BetterLife International Trade Co., Ltd.* (北京百得利國際商貿有限公司), a PRC limited liability company established on December 9, 2011 and one of our wholly-owned subsidiaries |
| “Beijing BetterLife Star” | Beijing BetterLife Star Auto Sales Co., Ltd.* (北京百得利之星汽車銷售有限公司), a PRC limited liability company established on January 9, 2008 and one of our wholly-owned subsidiaries |
| “Beijing BetterLife Technology” | Beijing BetterLife Star Technology Co., Ltd.* (北京百得利之星科技有限公司), a PRC limited liability company established on September 3, 2018 and one of our wholly-owned subsidiaries |
| “Beijing BetterLife Used Auto” | Beijing BetterLife Star Used Auto Brokerage Co., Ltd.* (北京百得利之星舊機動車經紀有限公司), a PRC limited liability company established on November 24, 2004 and one of our wholly-owned subsidiaries |

DEFINITIONS

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| “Beijing Zhoushi” | Beijing Zhoushi Xingye Enterprise Management Co., Ltd.* (北京周氏興業企業管理有限公司), a PRC limited liability company established on September 1, 2011, indirectly and legally owned by the trustee of the N&L Chou Trust for the benefit of the beneficiaries thereunder, and a connected person of our Company |
| “BetterLife International” | BetterLife International Motor Co., Limited (百得利國際汽車有限公司), a company incorporated in Hong Kong on July 15, 2010 and one of our wholly-owned subsidiaries |
| “BetterLife Tianjin” | BetterLife Tianjin Management Group Co., Ltd.* (百得利(天津)企業管理集團有限公司), with original name as Tianjin Zhoushi Xingye International Trade Co., Ltd.* (天津周氏興業國際貿易有限公司), a PRC limited liability company established on August 30, 2007 and one of our wholly-owned subsidiaries |
| “Board” | the board of Directors of our Company |
| “Business Day” or “business day” | a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong |
| “BVI” | the British Virgin Islands |
| “CAAM” | China Association of Automobile Manufacturers (中國汽車工業協會) |
| “CADA” | China Automobile Dealers Association (中國汽車流通協會) |
| “CAGR” | compound annual growth rate |
| “Capitalization Issue” | the issue of Shares to be made by way of the capitalization of certain sums standing to the credit of the share premium account of our Company referred to in “A. Further Information about Our Company — 4. Written resolutions of our Shareholder passed on June 17, 2021” in Appendix IV to this prospectus |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |

DEFINITIONS

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|-------------------------------|--|
| “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 or joint individuals or a corporation |
| “CCASS Participant” | a CCASS Clearing Participant, or a CCASS Custodian Participant or a CCASS Investor Participant |
| “Chengdu Chuanwu” | Chengdu Chuanwu Investment Co., Ltd.* (成都川物投資有限責任公司), a PRC limited liability company established on December 31, 2015, held by Mr. Zhang Heng (張恆) as to 50%, Ms. Zhang Yuan (張媛) as to 30%, Ms. Hu Xiaoxia (胡曉霞) as to 10% and Mr. Zhang Zheng (張政) as to 10%, and a connected person of our Company at subsidiary level as of the Latest Practicable Date |
| “Chengdu Jinbao” | Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd.* (成都百川金保汽車銷售服務有限公司), a PRC limited liability company established on January 8, 2014 whose financial results have been consolidated into our Group’s according to the relevant accounting treatments and one of our non-wholly owned subsidiaries. As of the Latest Practicable Date, Chengdu Jinbao was held by us as to 30% and by Chengdu Chuanwu as to 70% |
| “Chengdu Xinbao” | Chengdu Baichuanxinbao Auto Sales and Services Co., Ltd.* (成都百川新保汽車銷售服務有限公司), originally known as Chengdu Hengjie Auto Sales and Services Ltd* (成都恒捷汽車銷售服務有限公司), a PRC limited liability company established on March 30, 2012, held by us as to 70% and by Chengdu Chuanwu as to 30% and one of our non-wholly owned subsidiaries as of the Latest Practicable Date |
| “China” or “PRC” | the People’s Republic of China excluding for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region and Taiwan |

DEFINITIONS

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|--|---|
| “Chou Dynasty” | Chou Dynasty Holding Co., Ltd, a company incorporated in the BVI with limited liabilities on April 17, 2018, owned by Red Dynasty as to 100% and a Controlling Shareholder |
| “Chou Family Trust” | the Chou Family Trust established in Singapore on October 13, 2010 with Credit Suisse Trust Limited as its trustee |
| “Co-Manager” | uSmart Securities Limited |
| “Companies Act” or “Cayman Companies Act” | the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time |
| “Companies (WUMP) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time |
| “Company” or “our Company” or “BetterLife Holding” | BetterLife Holding Limited (百得利控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on May 18, 2018 as the listing vehicle of our Group |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Controlling Shareholder(s)” | has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely Chou Dynasty, Red Dynasty and Mr. Chou |
| “core connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Corporate Reorganization” | the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out in “History and Reorganization — Corporate Reorganization” in this prospectus |
| “CPCA” | China Passenger Car Association (中國乘用車市場信息聯席會) |

DEFINITIONS

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|---------------------------|---|
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets |
| “Deed of Indemnity” | the deed of indemnity dated June 17, 2021 entered into by Chou Dynasty and Mr. Chou in favor of our Company (for ourselves and as trustee for our subsidiaries) in respect of, among other things, certain indemnities, further information of which is set out in “G. Other Information” in Appendix IV to this prospectus |
| “Deed of Non-competition” | a deed of non-competition dated June 17, 2021 entered into among Chou Dynasty, Mr. Chou and our Company, further information of which is set out in the section headed “Relationship with Our Controlling Shareholders – Non-compete Undertakings” in this prospectus |
| “Director(s)” | the directors of our Company |
| “eCapital” | eCapital (China) Leasing Co., Ltd. (易匯資本(中國)融資租賃有限公司), a PRC limited liability company established on June 11, 2010, indirectly and legally owned by the trustee of the Chou Family Trust for the benefit of the beneficiaries thereunder and a connected person of our Company |
| “EIT Law” | the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) adopted by the National People’s Congress of the PRC on March 16, 2007 and amended on December 29, 2018 |
| “Extreme Conditions” | extreme conditions caused by a super typhoon as announced by the government of Hong Kong, or any extreme conditions or events, the occurrence of which causes serious interruption to the ordinary course business operations in Hong Kong |
| “Famous Great” | Famous Great International Limited, a company incorporated in the BVI with limited liabilities and an Independent Third Party as of the Latest Practicable Date |

DEFINITIONS

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| “Frost & Sullivan” | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party |
| “Frost & Sullivan Report” | an independent market research report commissioned by our Company on the PRC automobile dealership market and prepared by Frost & Sullivan |
| “GDP” | gross domestic product |
| “Global Offering” | the Hong Kong Public Offering and the International Offering |
| “ GREEN Application Form(s)” | the application form(s) to be completed by WHITE Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited |
| “Group”, “our Group”, “we” or “us” | our Company and its subsidiaries from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time |
| “Guangshun Automobile” | Foshan Shunde Guangshun Automobile Ltd* (佛山市順德區廣順汽車有限公司), a PRC limited liability company established on November 21, 1996, wholly-owned by Mr. Sun Zi’an (孫子安) and a connected person of our Company at subsidiary level as of the Latest Practicable Date |
| “Hangzhou BetterLife” | Hangzhou BetterLife Auto Co., Ltd.* (杭州百得利汽車有限公司), a PRC limited liability company established on August 18, 2010 and one of our wholly-owned subsidiaries |
| “HK\$”, “Hong Kong dollar(s)” or “cents” | Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |

DEFINITIONS

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| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Offer Share(s)” | the 15,000,000 new Shares (subject to reallocation as described in “Structure of the Global Offering” in this prospectus) being initially offered by our Company for subscription under the Hong Kong Public Offering |
| “Hong Kong Public Offering” | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), 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 Underwriters” | the underwriters of the Hong Kong Public Offering whose names are set out in “Underwriting — Hong Kong Underwriters (in Alphabetical Order)” in this prospectus |
| “Hong Kong Underwriting Agreement” | the underwriting agreement dated June 29, 2021 relating to the Hong Kong Public Offering entered into by our Company, Chou Dynasty, Mr. Chou, Mr. Chou (in the capacity as an executive Director), Ms. Sun Jing, Ms. Wei Hongjing and Mr. Chau Kwok Keung, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters |
| “Huatai” | Huatai Financial Holdings (Hong Kong) Limited |
| “IFRS” | the International Financial Reporting Standard(s) |
| “Independent Third Party(ies)” | an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates |
| “International Offer Share(s)” | the 135,000,000 new Shares to be offered by our Company (subject to reallocation as described in “Structure of the Global Offering” in this prospectus and the Over-allotment Option) under the International Offering |

DEFINITIONS

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| “International Offering” | the conditional placing by the International Underwriters of the International Offer Shares for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in “Structure of the Global Offering” in this prospectus, on and subject to the terms and conditions stated herein and in the International Underwriting Agreement |
| “International Underwriters” | the underwriters of the International Offering |
| “International Underwriting Agreement” | the underwriting agreement relating to the International Offering which is expected to be entered into by our Company, Chou Dynasty, Mr. Chou, Mr. Chou (in the capacity as an executive Director), Ms. Sun Jing, Ms. Wei Hongjing and Mr. Chau Kwok Keung, the Sole Sponsor, the Joint Global Coordinators and the International Underwriters on or about the date of the Price Determination Agreement |
| “Joint Bookrunners” | Macquarie, Huatai, BOCOM International Securities Limited, UOB Kay Hian (Hong Kong) Limited, DBS Asia Capital Limited, Futu Securities International (Hong Kong) Limited, First Shanghai Securities Limited and Maxa Capital Limited |
| “Joint Global Coordinators” | Macquarie and Huatai |
| “Joint Lead Managers” | Macquarie, Huatai, BOCOM International Securities Limited, UOB Kay Hian (Hong Kong) Limited, DBS Asia Capital Limited, Futu Securities International (Hong Kong) Limited, First Shanghai Securities Limited, Maxa Capital Limited, Huajin Securities (International) Limited and Valuable Capital Limited |
| “Laifu Auto” | Foshan Baide Laifu Auto Sales and Services Co., Ltd.* (佛山栢得來富汽車銷售服務有限公司), a PRC limited liability company incorporated on September 11, 2020 and one of our non-wholly owned subsidiaries. As of the Latest Practicable Date, Laifu Auto was held by us as to 90% and by Guangshun Automobile as to 10% |

DEFINITIONS

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| “Latest Practicable Date” | June 21, 2021, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication |
| “Listing” | the listing of our Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Date” | the date, expected to be on or about Thursday, July 15, 2021, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time |
| “Macquarie” | Macquarie Capital Limited |
| “Main Board” | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange |
| “Memorandum of Association” or “Memorandum” | the memorandum of association of our Company adopted on June 17, 2021 and as amended from time to time |
| “MOF” | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| “MOFCOM” | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “Mr. Chou” | Mr. Chou Patrick Hsiao-Po, the founder of our Group, an executive Director, the chairman of the Board, the chief executive officer and a Controlling Shareholder |
| “National People’s Congress” or “NPC” | the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) |
| “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) |

DEFINITIONS

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| “N&L Chou Trust” | N&L Chou Trust, of which the trustee is Vistra Trust (Singapore) Pte. Limited and the possible beneficiaries are Mr. Chou and his family members, is a connected person of our Company |
| “Nomination Committee” | the nomination committee of our Board |
| “Offer Price” | the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed or purchased under the Hong Kong Public Offering and the International Offering, to be determined in the manner further described in “Structure of the Global Offering — Pricing and Allocation” in this prospectus |
| “Offer Share(s)” | the Hong Kong Offer Shares and the International Offer Shares, where relevant including any additional Shares issued pursuant to the exercise of the Over-allotment Option |
| “Over-allotment Option” | the option granted by our Company to the International Underwriters, exercisable by Macquarie (for itself and on behalf of Huatai and the International Underwriters) for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 22,500,000 additional Shares at the Offer Price, representing 15% of the initial size of the Global Offering, to cover, among other things, over allocations in the International Offering as described in “Structure of the Global Offering” in this prospectus |
| “PBOC” | the People’s Bank of China (中國人民銀行), the central bank of the PRC |
| “PRC government” or “State” | the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities) |
| “PRC Legal Advisor” | Jingtian & Gongcheng |

DEFINITIONS

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| “Price Determination Agreement” | an agreement between our Company and Macquarie (for itself and on behalf of Huatai and the Underwriters) to fix the Offer Price |
| “Price Determination Date” | the date, expected to be on or around Thursday, July 8, 2021 and, in any event, not later than Saturday, July 10, 2021, on which the Offer Price is to be fixed by agreement between our Company and Macquarie (for itself and on behalf of Huatai and the Underwriters) to determine the Offer Price |
| “Qingdao BetterLife Auto” | Qingdao BetterLife Auto Co., Ltd.* (青島百得利汽車有限公司), a PRC limited liability company established on December 9, 2019 and one of our wholly-owned subsidiaries |
| “Qingdao BetterLife Sales” | Qingdao BetterLife Auto Sales Co., Ltd.* (青島百得利汽車銷售有限公司), a PRC limited liability company established on May 9, 2011 |
| “Qingdao BetterLife Service” | Qingdao BetterLife Auto Sales and Services Co., Ltd.* (青島百得利汽車銷售服務有限公司), a PRC limited liability company established on December 14, 2011 and one of our wholly-owned subsidiaries |
| “Qingdao BetterLife Trade” | Qingdao BetterLife Auto Trade Co., Ltd.* (青島百得利汽車貿易有限公司), a PRC limited liability company established on October 17, 2019 and one of our wholly-owned subsidiaries |
| “Red Dynasty” | Red Dynasty Investments Limited, a company incorporated in The Commonwealth of The Bahamas on September 22, 2010, and owned as to 50% and 50%, respectively, by Serangoon Limited and Seletar Limited, both as nominee and trustee for Credit Suisse Trust Limited as trustee of the Chou Family Trust |
| “Regulation S” | Regulation S under the U.S. Securities Act |
| “Remuneration Committee” | the remuneration committee of our Board |
| “RMB” or “Renminbi” | Renminbi, the lawful currency for the time being of the PRC |

DEFINITIONS

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| “SAFE” | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable |
| “SAIC” | the State Administration for Industry and Commerce of the PRC (中國國家工商行政管理總局), including, as the context may require, its local counterparts, which was merged into the SAMR in 2018 |
| “SAMR” | the State Administration for Market Regulation (中華人民共和國國家市場監督管理總局) |
| “SAT” | the State Taxation Administration of the PRC (中華人民共和國國家稅務總局) |
| “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 and supplemented from time to time |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the share capital of our Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Share Option Scheme” | the share option scheme conditionally adopted by our Company on June 17, 2021, the principal terms of which are summarised under “F. Share Option Scheme” in Appendix IV to this prospectus. |
| “Sole Sponsor” | Macquarie, a corporation licensed under the SFO permitted to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities under the SFO |
| “Stabilizing Manager” | Macquarie |
| “State Council” | the State Council of the PRC (中華人民共和國國務院) |

DEFINITIONS

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| “Stock Borrowing Agreement” | the stock borrowing agreement expected to be entered into between Chou Dynasty and the Stabilizing Manager (or its agents) on or around the Price Determination Date |
| “Stock Exchange” or “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Strategic Development Committee” | the strategic development committee of our Board |
| “subsidiary(ies)” | has the meaning ascribed to it in the Listing Rules, unless the context otherwise requires |
| “substantial shareholder(s)” | has the meaning ascribed to it under the Listing Rules |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |
| “Teal Orchid” | Teal Orchid Investments Limited, a company incorporated in the BVI with limited liabilities on July 9, 2010 and dissolved on December 19, 2017 |
| “Tianjin BetterLife Auto” | Tianjin BetterLife Auto Service Co., Ltd.* (天津百得利汽車服務有限公司), a PRC limited liability company established on May 26, 2006 and one of our wholly-owned subsidiaries |
| “Tianjin Guomao” | Tianjin Chou International Trading Co., Ltd. (天津周氏國際貿易有限公司), previously known as BetterLife (Tianjin) International Trade Ltd. (百得利(天津)國際貿易有限公司), a PRC limited liability company established on April 2, 2001, indirectly and legally owned by the trustee of the N&L Chou Trust for the benefit of the beneficiaries thereunder, and a connected person of our Company |
| “Tianjin Laifutai” | Tianjin Laifutai Insurance Agency Co., Ltd.* (天津來福泰保險代理有限公司), a PRC limited liability company established on March 14, 2014 |
| “Tianjin Liya” | Tianjin Liya Advertisement Co., Ltd.* (天津莉雅廣告有限公司), a PRC limited liability company established on July 12, 2012 and one of our wholly-owned subsidiaries |
| “Track Record Period” | the years ended December 31, 2018, 2019 and 2020 |

DEFINITIONS

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| “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, its territories, its possessions and all areas subject to its jurisdiction |
| “U.S. dollar(s)” or “US\$” or “USD” | United States dollars, the lawful currency for the time being of the United States |
| “U.S. Securities Act” | the U.S. Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder |
| “Weifang BetterLife” | Weifang BetterLife Trade Co., Ltd.* (濰坊百得利貿易有限公司), a PRC limited liability company established on November 2, 2011 and one of our wholly-owned subsidiaries |
| “ WHITE Application Form(s)” | the application form(s) for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicants’ own name |
| “ 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 – www.eipo.com.hk |
| “ White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited |
| “ YELLOW Application Form(s)” | the application form(s) for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS |
| “Yiwei Cultural” | Yiwei (Beijing) Cultural Technology Co., Ltd.* (一葦(北京)文化科技有限公司), a PRC limited liability company established on December 21, 2016 and one of our wholly-owned subsidiaries |

DEFINITIONS

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| “Yiwei Diandang” | Yiwei (Beijing) Diandang Co., Ltd.* (一葦(北京)典當有限公司), a PRC limited liability company established on August 7, 2017 which was deregistered on January 12, 2021 |
| “Zhongsheng Group” | collectively, Zhongsheng Holdings and its subsidiaries |
| “Zhongsheng Holdings” | Zhongsheng Group Holdings Limited (中升集團控股有限公司), a limited liability company incorporated in the Cayman Islands and listed on the Main Board (Stock Code: 881) |
| “%” | per cent |

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.

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into Hong Kong dollars or U.S. dollars at an exchange rate of RMB0.83148 = HK\$1.00 or RMB6.4546 = US\$1.00, respectively, for illustration purposes only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into Hong Kong dollars or U.S. dollars at such rates or any other exchange rates on such date or any other date.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” are for identification purposes only.*

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

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| “3R Provisions” | Provisions on the Liabilities for the Repair, Replacement and Return of Household Automotive Products (家用汽車產品修理、更換、退貨責任規定), which were promulgated by the State Administration of Quality Supervision, Inspection and Quarantine on December 29, 2012 and became effective on October 1, 2013 |
| “3S dealership store” | an automobile dealership store authorized by the automobile manufacturer that integrates the three business elements initiated by “S”, namely, sales, spare parts and services |
| “4S dealership store” | an automobile dealership store authorized by the automobile manufacturer that integrates the four business elements initiated by “S”, namely, sales, spare parts, services and survey |
| “Audi” | a German luxury automobile brand and manufacturer, which is owned by the Volkswagen Group |
| “automobile accessories” | automobile-related products displayed and sold in the dealership stores, including oil, tires and polishes, automobile electronics and other automobile styling products and branded merchandise |
| “Bentley” | a British ultra-luxury automobile brand and a subsidiary of Volkswagen Group, a German multinational automobile manufacturer |
| “BMW” | a German multinational company which produces luxury automobiles and motorcycles |
| “ERP system” | enterprise resource planning system, an accounting-oriented information system for identifying and planning the enterprise-wide resources needed to take, make, distribute and account for customer orders |
| “Greater Bay Area” | the Guangdong-Hong Kong-Macao Greater Bay Area, a geographical region in China, including nine cities in Guangdong province, namely Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing, as well as the Special Administrative Regions of Hong Kong and Macao for the purpose of this prospectus |
| “GPS” | global positioning system |
| “high-net-worth individual(s)” | individual(s) with investable assets over RMB10.0 million |

GLOSSARY OF TECHNICAL TERMS

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| “JAC Volkswagen-Sihao” | refers to “Sihao” (思皓), which is an automobile brand launched by SEAT (a Spanish automobile manufacturer) and JAC Volkswagen Automotive Co., Ltd., a 50:50 joint venture between Volkswagen Group and JAC Automobile Group |
| “Jaguar-Land Rover” | a British automobile manufacturer of sedans and sports cars and a wholly-owned subsidiary of Tata Motors, an Indian automobile manufacturer |
| “Mercedes-Benz” | a German luxury automobile brand and manufacturer headquartered in Stuttgart |
| “Porsche” | a German ultra-luxury automobile brand and manufacturer specializing in high-performance sports cars and sedans, which is a subsidiary of Volkswagen Group |
| “Rolls-Royce” | a British ultra-luxury automobile brand and manufacturer |
| “sq.m.” | square meter |
| “tier-one cities” | represent four traditional first-tier cities in China, namely Beijing, Shanghai, Guangzhou and Shenzhen, and 15 new first-tier cities in China, including Chengdu, Chongqing, Hangzhou, Wuhan, Xi’an, Tianjin, Suzhou, Nanjing, Zhengzhou, Changsha, Dongguan, Shenyang, Qingdao, Hefei and Foshan for the purpose of this prospectus |
| “tier-two cities” | represent 30 second-tier cities in China, namely Ningbo, Kunming, Fuzhou, Wuxi, Xiamen, Jinan, Dalian, Harbin, Wenzhou, Shijiazhuang, Quanzhou, Nanning, Changchun, Nanchang, Guiyang, Jinhua, Changzhou, Huizhou, Jiaxing, Nantong, Xuzhou, Taiyuan, Zhuhai, Zhongshan, Baoding, Lanzhou, Taizhou, Shaoxing, Yantai and Langfang for the purpose of this prospectus |
| “Volkswagen” | a German medium-level automobile brand and manufacturer founded in 1937 |
| “Volvo” | a Swedish luxury automobile brand owned by the Chinese multinational automotive company Geely Holding Group |
| “Yangtze River Delta” | includes Shanghai, Jiangsu and Zhejiang provinces in China for the purpose of this prospectus |

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us 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 “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would”, “wish” and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise 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 and the performance of our new and planned dealership stores;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business goals and our strategies to achieve these goals, including our ability to establish or acquire additional stores;
- the actions and developments of our automobile manufacturer partners and our competitors;
- 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 scale and nature of, and potential for, future developments of our business and expansion of our network through organic growth and selective acquisitions;
- capital market developments and the availability of financing to us; and
- change or volatility in interest rates, inflation rate in China, foreign exchange rates, sales volumes, margins 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. We caution you not to place undue reliance on any forward-looking statements or information.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as of the date of this prospectus. Any such intentions may potentially 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 the investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of 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, results of operations, financial condition or on the trading price of our Shares, and could cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

The rapid growth of new energy automobile market could restrict the supply of and reduce the demand for gasoline-powered automobiles in China.

According to the Frost & Sullivan Report, the new energy automobile market in China experienced rapid growth during the past few years due to the favorable government policies and the maturity of the relevant technologies for new energy automobiles. The sales volume of new energy automobiles in China increased significantly from 0.1 million units in 2014 to 1.2 million units in 2020, representing a CAGR of 51.3%. The sales volume of new energy vehicles in China is expected to grow at a CAGR of 31.4% from 2020 to 2025, reaching 4.7 million units in 2025. The penetration rate of new energy vehicles also increased significantly from 0.5% in 2014 to 5.7% in 2020 and is forecasted to continue to grow and reach 18.1% in 2025, according to the Frost & Sullivan Report. The emerging electric vehicle brands in the luxury and ultra-luxury segment, such as Tesla, NIO and Lixiang, which mainly adopt a direct-sale model, may threaten the demand for petroleum vehicles of other luxury and ultra-luxury brands, including Porsche, Bentley, Audi, Mercedes-Benz, Volvo and Jaguar-Land Rover.

According to the Frost & Sullivan Report, (i) the sales volume of new energy vehicles in the luxury and ultra-luxury segment grew at a faster pace than that of petroleum vehicles in the same segments from 2016 to 2020. According to the Frost & Sullivan Report, the sales volume of new energy vehicles in the luxury and ultra-luxury segment grew at a CAGR over 100.0% from 2016 to 2020, compared with a CAGR of 10.0% for petroleum vehicles in the luxury and ultra-luxury segments during the same period; and (ii) the market share in terms of the sales volume of new energy vehicles in the luxury and ultra-luxury passenger vehicle market increased from 0.5% in 2016 to 5.5% in 2020, and is expected to continue to grow and reach 15.5% in 2025, which may have an adverse impact on the demand for petroleum vehicles in the luxury and ultra-luxury segments.

Many domestic and international automobile brands have launched their new energy automotive products in China. We cannot assure you that the automobiles we sell will remain attractive in the market. Reduced automobile usage and the rapid development of new energy automobiles may also decrease demand for and frequency of repair and maintenance services for gasoline-powered automobiles, which may have an adverse effect on our after-sales business.

RISK FACTORS

Limits imposed by the PRC government on the purchase of new automobiles may adversely affect our business and results of operations.

With a view to curbing traffic congestion in China, the PRC government had implemented various rules and regulations on automobile purchase and ownership by limiting the number of new license plates to be issued each year. Among the cities where we have business operations, relevant regulations restricting the number of new automobiles have been implemented in Beijing, Tianjin and Hangzhou. In these three cities, applicants for automobile license plates shall register with the local quota allocation management offices. The applicant that meets the relevant requirements can receive a valid code, with which the applicant can participate in license plate quota lottery or bidding process.

According to the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定), which was promulgated on October 29, 2020 and took effect on January 1, 2021, and the Rules for the Implementation of the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定實施細則), which was promulgated on December 5, 2020 and took effect on January 1, 2021, the license plate quota in Beijing for new energy automobiles for units and individuals shall be allocated through queuing schemes, the license plate quota for new energy automobiles for households in Beijing shall be allocated based on points assigned to local families, and the license plate quota for non-new energy automobiles in Beijing shall be allocated through lottery schemes. According to the Measures on Adjusting and Controlling the Total Quantity of Passenger Vehicles in Tianjin (天津市小客車總量調控管理辦法), which was promulgated on December 27, 2019 and took effect on January 1, 2020, the incremental license plate quota in Tianjin is allocated through lottery schemes for new energy automobiles and through lottery and bidding for ordinary automobiles. The allocation cycle for incremental license plate quota is 12 months. The quota for each cycle is 100,000, which is allocated on a monthly basis and does not allow across-cycle allocation. Within each cycle, the incremental license plate quota for new energy automobiles is 10,000, which is allocated through lottery schemes. The incremental license plate quota for ordinary automobiles is 90,000, among which 50,000 is allocated through lottery schemes and 40,000 is allocated through bidding.

According to the Regulations of Adjusting and Controlling the Total Quantity of Passenger Vehicles in Hangzhou (杭州市總量調控管理規定), which was promulgated and took effect on January 6, 2017, the incremental license plate quota is allocated through lottery and bidding schemes in Hangzhou. The allocation cycle for the quota is 12 months. The quota approved for each cycle is 80,000, among which 80% is allocated through lottery schemes and the rest 20% is allocated through bidding.

According to the Frost & Sullivan Report, the number of petroleum vehicles sold in these cities except Tianjin was higher than the license plate quota granted by the local governments for the year, primarily because a large number of new vehicles was sold for replacing/trading in an old model. In this way, the vehicle owner does not need to apply for a new license plate. In addition, driven by the increasing disposable income of Chinese residents, people would prefer to choose a higher class model when they decide to replace their cars. According to the

RISK FACTORS

Frost & Sullivan Report, the average age of passenger vehicles in China was approximately 4.9 years in 2020. Therefore, people will replace/trade in their automobiles in a relatively short period of time and the demand for passenger vehicles is not materially limited by license plate quota. However, such restrictions may still result in a decrease of sales in petroleum vehicles. Following the effective date of the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定) and the Rules for the Implementation of the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定實施細則) on January 1, 2021, the petroleum vehicles sold in Beijing decreased from 313,698 for the year ended December 31, 2019 to 296,640 for the year ended December 31, 2020. Following the effective date of the Regulations of Adjusting and Controlling the Total Quantity of Passenger Vehicles in Hangzhou (杭州市總量調控管理規定) on January 6, 2017, the petroleum vehicles sold in Hangzhou amounted to 203,733, 203,088 and 191,220 for the years ended December 31, 2018, 2019 and 2020, respectively.

There is uncertainty as to whether such limit would be adopted in other cities where we operate. These and any future anti-congestion regulations in the markets where we operate may restrict the ability of potential customers to purchase automobiles and in turn reduce customers' demand for automobiles. Should similar regulations be adopted in other cities where we operate, or existing regulations become stricter, our sales in those cities may be adversely affected.

Changes and development in government policies concerning automobile sales and other automobile-related services could adversely affect our business, financial condition and results of operations.

Government policies and the relevant regulations on automobile industry may have an adverse effect on our business and growth prospects. For example, the local governments of certain provinces and municipalities in China, including Zhejiang, Sichuan, Shandong and Guangdong provinces and Tianjin have implemented the China Six Standard since July 1, 2019. Beijing Municipal Ecology and Environment Bureau (北京市生態管理局), Beijing Market Supervision and Administration Bureau (北京市市場監督管理局) and Beijing Traffic Management Bureau (北京市公安局公安交通管理局) jointly issued the Announcement on Early Implementation of China Stage Six Motor Vehicle Emission Standards in Beijing (關於北京市提前實施國六機動車排放標準的通告) on June 28, 2019, according to which, starting from January 1, 2020, light-duty gasoline vehicles in Beijing shall be in compliance with the China Six Standard. Due to the transition of automobile models to fulfill the requirements of the China Six Standard, our sales volume of automobiles declined from 2018 to 2019. Pursuant to the Announcement on Relevant Requirements for Adjustments to the Implementation of the China Six Emission Standard for Light-duty Vehicles (關於調整輕型汽車國六排放標準實施有關的公告), which was jointly issued by the Ministry of Ecology and Environment of the PRC (the "MEE"), the Ministry of Industry and Information Technology, MOFCOM and the General Administration of Customs of China on May 13, 2020, beginning on July 1, 2020, the China Six Standard for light-duty vehicles shall be implemented nationwide in China, the light-duty vehicles to which the China Five Standard applies shall be prohibited from production, and imported light-duty vehicles shall comply with the China Six Standard. In addition, according

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to the Frost & Sullivan Report, as the China Six Standard was different from the emission standard set by the European Union, some of the imported automobile models that did not comply with China's emission standard were not allowed to enter China's market, which had led to a decrease in the imported volume of automobiles in China during the year of 2019. Meanwhile, automobile manufacturers are relatively more willing to supply new automobiles that comply with the China Six Standard to the dealers in areas where the China Six Standard has been implemented. We cannot assure you that the automobile emission standard will not change in the future. If a higher standard is set by the PRC government authorities, the automobiles models that we sell at that time will have to experience transition and our sales activities and marketing strategies may be affected, which may adversely affect the sales volume of our 4S dealership stores. If we are not able to sell our automobiles that do not comply with the new automobile emission standard before its implementation, such automobile inventories may become obsolete. As a result, our business, financial condition and results of operations may be materially and adversely affected.

In addition, according to the Frost & Sullivan Report, due to the promotion of relevant online trading platforms and the favorable policies for financing and trading of used passenger vehicles, such as the Opinions on Promoting Used Cars' Transactions (關於促進二手車便利交易的若干意見) (the "Opinions") promulgated by the State Council on March 14, 2016 and the Notice of Measures to Stabilize and Expand the Consumption of Automobiles (關於穩定和擴大汽車消費若干措施的通知) (the "Notice") jointly promulgated by the NDRC, PBOC and nine other government authorities on April 28, 2020, the sales volume of used passenger vehicles in China increased at a CAGR of 9.3% from 2014 to 2020, and is forecasted to reach 13.8 million units in 2025, representing a CAGR of 4.5% from 2020 to 2025. According to the above-mentioned Opinions and Notice, the local governments shall invigorate the used car market to make free flow of used cars and shall not impose restrictions on the flow of used cars. They shall take measures to simplify the registration procedures for used cars, optimize the vehicle registration system and facilitate the transaction parties to complete the registration procedures at the location of the used cars. The Measures for the Administration of the Circulation of Used Cars (二手車流通管理辦法) should be revised and promulgated as soon as possible to strengthen the management of the used car industry and standardize the behavior of used car dealership companies. From May 1, 2020 to the end of 2023, the used car dealers are subject to a favorable VAT rate, which is 0.5% of the transaction amount for the sale of used cars. The favorable policies for trading used passenger vehicles and the gap between the price of a new and used automobile may lead to a drop in the demand for new automobiles in China, which may result in a decrease in the sales volume of new automobiles and adversely affect our business, financial condition and results of operations.

Apart from automobile sales, our other automobile-related services, such as the insurance agency services, are also subject to regulatory restrictions in the PRC. According to Circular on Strengthening Administration on Insurance Terms and Premium Rates of Commercial Automobile Insurance (關於加強機動車輛商業保險條款費率管理的通知), which was promulgated by China Insurance Regulatory Commission and came into effect on February 23, 2012, the commercial automobile insurance clauses and premium rates formulated by the insurance companies shall be submitted to the regulatory authority for approval. The commercial automobile insurance premium rates include, among others, the expected

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compensation expenses, business tax and additional charges, commission and handling charges, business management expenses, profits and additional risk expenses. On June 29, 2018, the China Banking and Insurance Regulatory Commission (the “CBIRC”) issued the Notice in Relation to the Regulations on Commercial Vehicle Insurance Premium (Yin Bao Jian Ban Fa [2018] No. 57) (中國銀保監會辦公廳關於商業車險費率監管有關要求的通知 (銀保監辦發[2018]57號)) (the “Notice 57”), pursuant to which each insurance company shall report to the CBIRC the range and policies on charging commission and handling fees, which include all handling charges, service fees, promotional fees, remuneration, incentive payments, bonus payments and commission, and shall not have any unfair competition amongst different insurance companies. In June 2018, several leading insurance companies in the PRC suggested to impose a limit on the commission rate on motor vehicle insurance, which states the commission rate of insurance for pre-owned automobiles shall not exceed 20.0% and commission rate of insurance for new automobiles shall not exceed 25.0%. After the issuance of the Notice 57 in June 2018, the average market commission rate of commercial vehicle insurance products decreased in China. The decrease in the maximum commission rate has led to a decrease in the commission income that we generated from our insurance agency services. In September 2020, the CBIRC issued the Notice on Issuing the Regulations for Actuarial of Model Commercial Automobile Insurance (Yin Bao Jian Fa [2020] No. 42) (關於印發示范型商車險精算規定的通知 (銀保監發[2020]42號)), which replaced the Notice 57, stipulating that insurance companies shall set up a reasonable price system, including premium rate, handling charges and additional charges based on the subject risks and operating costs. If the limits imposed by the insurance companies on commission rate on motor vehicles insurance continue to decrease in the future, our insurance agency business, financial condition and results of operations may be adversely affected.

The PRC government may introduce policies, guidelines, rules and regulations from time to time to regulate the automobile-related businesses. We may incur substantial costs in order to be in compliance with the applicable regulations, and any changes in these policies and regulations may have an adverse effect on our business, growth prospects and profitability.

We rely on authorizations granted by automobile manufacturers to operate our 4S dealership stores. Any loss of such authorization would negatively affect our business operations and financial condition.

We rely on automobile manufacturers for the rights to operate our dealership stores and for the supply of new automobiles and spare parts. Our rights to open and operate 4S dealership stores and the supply of automobiles and spare parts are governed by dealership agreements with automobile manufacturers. Our acquisition of dealership stores is also subject to authorization from automobile manufacturers. These dealership agreements are non-exclusive and generally have a term of three to five years, which is renewable upon expiration. Automobile manufacturers have the right to terminate their authorizations or refuse to enter into dealership agreements with us for various reasons, including, among others, our failure to comply with the terms set out in the dealership agreements and unapproved changes in our ownership or management structure that impair our ability to meet our contractual obligations under these agreements. In addition, automobile manufacturers may elect not to renew their agreements with us due to various reasons beyond our control, including changes in their

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business strategies. There is no assurance that we will be able to renew our dealership agreements or other agreements with automobile manufacturers on a timely basis, on commercially acceptable terms, or at all. Automobile manufacturers may also decide to restrict, limit or reduce the number of dealership stores that we are authorized to operate. If any automobile manufacturer with whom we have dealership agreements decide not to renew or terminate their agreements with us, or otherwise reduce or terminate their business dealings with us, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

There is no assurance that we will continue to receive incentive rebates from automobile manufacturers and we may encounter difficulties in recovering rebate receivables.

Our purchase arrangements with automobile manufacturers often include purchase volume or sales-based incentive rebates, which are decided with reference to the number of new automobiles we purchase or sell, and adjusted based on our completion of certain targets set by the relevant automobile manufacturers, including customer satisfaction indexes and other performance indicators. For the years ended December 31, 2018, 2019 and 2020, we recorded rebates of approximately RMB392.3 million, RMB351.4 million and RMB472.9 million, respectively, accounting for approximately 5.3%, 5.0% and 6.3% of our revenue from the sales of automobiles for the same years, respectively. If we fail to meet these performance targets set by the automobile manufacturers, our rebates with reference thereto will be adversely affected. Should some or all automobile manufacturers cease to offer such rebates, or alter the conditions by which such rebates are granted, our financial condition and results of operations may be materially and adversely affected.

In addition, our incentive rebates, based on either procurement or sales volume, are recognized as receivables with a corresponding reduction to the cost of sales in the month during which the related automobiles are sold. The procurement-based rebates are recognized as receivables with a corresponding reduction to the book value of the related automobile inventory, which will be transferred to, and recognized as, cost of sales in the month in which the related inventory is sold. We usually estimate the rebates to be accrued based on the manufacturers' rebate policies and their assessment criteria prior to the confirmation of the relevant automobile manufacturer. Then, we declare the rebates in the rebate system of the corresponding manufacturer based on the actual procurement and/or sales volume. As of December 31, 2018, 2019 and 2020, the balance of our rebate receivables was RMB154.5 million, RMB135.3 million and RMB153.8 million, respectively. We cannot guarantee the recoverability or predict the movement of our rebate receivables. If we fail to recover our rebate receivables, this may have an adverse impact on our working capital needs and may adversely affect our financial condition in the future.

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We generate a significant portion of revenue from sales of automobiles for a few major brands. Any deterioration of such brands or our relationships with such brands may materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we derived a significant portion of revenue from the sale of automobiles of a few European automobile brands, including Porsche, Mercedes-Benz, Audi, Volvo, Jaguar-Land Rover and imported Volkswagen. For the years ended December 31, 2018, 2019 and 2020, revenue generated from the sale of automobiles represented approximately 87.4%, 86.4% and 87.5% of our total revenue for the years, respectively. If any of these brands experience deterioration in its market perception or popularity among Chinese consumers, it could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Specifically, we rely on Porsche for a significant percentage of our business. For the years ended December 31, 2018, 2019 and 2020, the revenue generated from the sales of Porsche amounted to approximately 53.9%, 56.2% and 53.5% of the total revenue, and the gross profit generated from the sales of Porsche amounted to approximately 65.1%, 58.9% and 58.6% of the total gross profit. The dealership agreements that we entered into with the manufacturer of Porsche are generally renewable upon mutual agreements. The expiration date of the latest dealership agreements we enter into with the manufacturer of Porsche is December 31, 2023. If our dealership agreements with the manufacturer of Porsche are renewed on terms less favorable to us or we are unable to renew such contracts at all, we would not be able to continue to sell the automobile models of Porsche, and our business, financial condition and results of operations would be materially and adversely affected. See “Business — Our Business — Business Relationship with Porsche” in this prospectus for details.

There can be no assurance that we will always be able to maintain the relationships with our automobile manufacturers in the future. If the owner of any of our major brands terminates or decides not to renew their dealership agreements with us on acceptable terms, or at all, or these brands become less attractive to customers due to automobile recalls or any other problems which are out of our control, our business, financial condition, results of operations and growth prospects may be materially and adversely affected. In addition, adverse changes in financial position of automobile manufacturers and their failure to design, manufacture and market attractive automobile models, spare parts, accessories and other automobile-related products may result in negative publicity for these major brands and negatively affect our business, financial condition, results of operations and growth prospects.

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Our business performance, financial condition and results of operations may be adversely affected by the outbreak of COVID-19.

Since December 2019, the outbreak of COVID-19 has created significant business disruption. The outbreak has resulted in the PRC government implementing various measures to contain COVID-19, such as travel bans and restrictions, particularly quarantines, lock-down orders and business limitations and shutdowns. Following the outbreak of COVID-19, during the Chinese New Year's holidays at the end of January 2020, the PRC government extended the public holiday period during which businesses remained closed. For the remainder of February and March 2020, we implemented staggered work shifts and only had part of our staff on duty during work hours. In the meanwhile, residents in Beijing as well as most other parts of China reduced non-essential activities as a result of COVID-19 concerns and postponed test-drives or automobile purchases. Although all of our 4S dealership stores have resumed normal business operations since April 2020, the containment measures are subject to change and the PRC government authorities may further tighten the restrictions at any time.

The global outbreak of COVID-19 has caused us to modify our business practices, including restricting employees travel, developing social distancing plans for employees and cancelling physical participation in meetings, events and conferences, and we may take further actions as may be required by government authorities or as we determine in the best interests of our employees and business partners. See "Business — Impact of the COVID-19 Pandemic" in this prospectus for more information about our contingency plan and response to the COVID-19 pandemic.

In addition, the global outbreak of COVID-19 may materially impact our industry and cause temporary closures of many other businesses, including our suppliers and customers, which would severely disrupt our business operations. In late 2020, after a third-party company in Beijing engaged in automobile spare part sales reported confirmed COVID-19 cases, certain auto parts packaging samples of our Mercedes-Benz dealership store in Beijing have tested positive for the COVID-19. All employees at our dealership stores of Mercedes-Benz, Porsche, Audi and Volvo, which are located in the same automobile park of Haidian district in Beijing, have conducted nucleic acid testing before the New Year's holidays of 2021. None of these employees have tested positive for the COVID-19. To better protect the safety and health of our employees and customers, (i) these dealership stores were temporarily closed from December 30, 2020 to January 12, 2021 and all employees of these dealership stores were required to stay home for 14 days of quarantine; and (ii) we thoroughly disinfected these dealership stores for a couple of times during the closing period. These dealership stores have resumed normal business operations since January 13, 2021. However, if the COVID-19 pandemic prolonged, it may cause potential closure of our 4S dealership stores, which may adversely affect our operating performance and financial condition in the upcoming financial years. Any material adverse change in demand for passenger vehicles due to the reduced consumer mobility during the COVID-19 pandemic will also affect our business performance. Our operations could be further disrupted if any of our employees were suspected of contracting the COVID-19, or any product we sell, including the auto parts packaging, tested positive for the COVID-19, since this could require us to quarantine some or all of our employees and disinfect or temporarily

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close our dealership stores. The development of this pandemic is beyond our control and we expect that if such pandemic continues for a prolonged period of time, our business, results of operations and financial condition may be materially and adversely affected. For the year ended December 31, 2020, the government grants we received in relation to the COVID-19 pandemic amounted to approximately RMB2.9 million.

Our profitability may be affected by the mix of products and services we offer.

Our businesses primarily consist of sale of automobiles and after-sales services, which include repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and license plate registration services. For the years ended December 31, 2018, 2019 and 2020, we derived 87.4%, 86.4% and 87.5% of our revenue from sale of automobiles. However, the gross profit margin of sale of automobiles was relatively low. For the years ended December 31, 2018, 2019 and 2020, the gross profit margin of sale of automobiles was 4.3%, 3.7% and 5.1%, which was significantly lower than the after-sales services. As such, our overall gross profit margin may vary due to changes in gross profit margins of the sale of automobiles and after-sales services, as well as changes in revenue contributions of these business segments. Given the relatively low gross profit margin from sale of automobiles, we cannot assure you that we are able to grow our after-sales services at a rate higher than the sale of automobiles in the future. Therefore, our gross profit margin and profitability may vary significantly from period to period.

During the Track Record Period, we also generated commission income from other automobile-related services, including automobile financing and pre-owned automobile brokerage services, which were recognized as other income in our consolidated statements of profit or loss. For the years ended December 31, 2018, 2019 and 2020, we derived an aggregate commission income of RMB74.5 million, RMB80.1 million and RMB90.6 million from automobile financing and pre-owned automobile brokerage businesses, respectively, representing approximately 32.0%, 57.1% and 53.8% of our other income and gains for the same years, respectively. The amount of commission income that we are able to receive is largely dependent on the amounts and duration of the loans referred by us to customers to finance their automobile purchases and the transaction value of each pre-owned automobile. There is no assurance that we can continue to grow our automobile financing and pre-owned automobile brokerage services in the future. The decrease in the amount of commission income received by us will impact our Group's results of operations and we may experience decreases in profitability.

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Our revenue declined during the Track Record Period primarily due to the decrease in sales volume of automobiles, and our prospects are dependent on various factors, including but not limited to achieving revenue growth and our ability to cope with the fierce market competition from different market players.

Our revenue decreased from RMB8,409.2 million for the year ended December 31, 2018 to RMB8,178.8 million for the year ended December 31, 2019, primarily due to the decrease in the sales volume of automobiles as a result of transition of automobile models to fulfill new requirements of the Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 6) (輕型汽車污染物排放限值及測量方法) (中國第六階段) (“China Six Standard”), which have been implemented in Zhejiang, Sichuan, Guangdong and Shandong provinces and Tianjin since July 1, 2019, and in Beijing since January 1, 2020. As advised by our PRC Legal Advisor, after the implementation of the China Six Standard, the production and import of light-duty vehicles that only satisfy the Limits and Measurement Methods for Emission from Light-duty Vehicles (CHINA 5) (“China Five Standard”) are prohibited in China. A transition period, which is six months for Sichuan and three months for Beijing, Tianjin, Guangdong, Shandong and Zhejiang after the implementation of the China Six Standard, has been granted by the local governments. During the transition period, application for registration of vehicles that satisfy the China Five Standard was still accepted by the local government authorities. However, the implementation of the China Six Standard, which has set more stringent emission requirements for light-duty vehicles, has resulted in a transition between automobile models. This transition between models had a significant negative impact on the automobile sales performance of our dealership stores in 2019 as consumers were inclined to hold off purchase decisions until the transition was completed. We adopted a conservative approach when purchasing our inventory for 2019 because automobiles manufactured under the old emission requirements had to be all sold off before the end of 2019 before the new requirements took effect. These old model automobiles were often sold at reduced prices due to the scheduled transition. As our manufacturers just transitioned to new models of automobiles that meet the new emission requirements as well, for a while the supplies of these new model automobiles available to us were limited in 2019. In addition, according to the Frost & Sullivan Report, as the China Six Standard was different from the emission standard set by the European Union, some of the imported automobile models that did not comply with China’s emission standard were not allowed to enter China’s market, which had led to a decrease in the volume of imported automobiles in China during the year of 2019. Meanwhile, automobile manufacturers are relatively more willing to supply the new automobiles, which comply with the emission requirements in China, to the dealers in areas where such new emission standard has been implemented. All of these factors contributed to the decrease in our sales for 2019 compared with 2018. See “Financial Information” in this prospectus and “Changes and development in government policies concerning automobile sales and other automobile-related services could adversely affect our business, financial condition and results of operations” in this section for details.

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Our profitability and ability to achieve profits may also be affected by fierce competition from different market players. We face direct competition with other automobile dealership service providers, which operate the same brands as we do. In addition, owing to the rise of new energy automobiles, competition with manufacturers of new energy automobiles who directly sell their automobiles to customers have also become increasingly fierce. See “The risk of disintermediation of automobile manufacturers and their establishment of their own dealership stores may affect our competitiveness” in this section for further information. If we fail to compete against these market players, our profitability and financial position will be adversely affected.

In addition, our profitability may be affected by the shortage of raw materials and parts (including chips) for manufacturing the automobile models that we sell. Such shortage of raw materials and parts (including chips) may result in a decrease in the automobile models that the manufacturers are able to produce, and as a result may cause our inventories and sales volumes of relevant automobile models to decrease.

Automobile manufacturers may impose restrictions on many different aspects of our business and operations and we rely on their support and cooperation for the successful operation of our business.

Automobile manufacturers may require us to operate our 4S dealership stores subject to various restrictions, including but not limited to, geographical limitations on the location of our dealership stores and our target marketing areas, setting pricing guidelines for the sale of automobiles, spare parts and accessories procured from the automobile manufacturers and limitations on brands or models of automobiles that our dealership stores can display and sell. These restrictions imposed by, and the significant influence from, automobile manufacturers on our business could impair our ability to respond to changes in business environment, which could in turn materially and adversely affect our business, financial condition, results of operations and growth prospects. Furthermore, we rely on support and cooperation from automobile manufacturers for the successful operation of our business. If political tension arises between China and the country of origin of the automobile brands that we sell, the automobile manufacturers may impose more restrictions on authorized dealers in China, which may adversely affect our business, financial condition, results of operations and growth prospects. If our relationship with any automobile manufacturer were to deteriorate, our business, financial condition, results of operations and growth prospects could be materially and adversely affected.

For example, with respect to product pricing, automobile manufacturers usually provide their suggested retail price based on the prevailing market price. Successful pricing policies adopted by automobile manufacturers allow us to compete effectively for customers while maintaining profitability. If automobile manufacturers raise the suggested retail price, customers’ demand for their automobiles may be negatively affected, thus affecting our sales. In addition, any decrease in the prevailing market price may impair our profitability. Failure to comply with the pricing guidelines may negatively affect our relationships with such automobile manufacturers.

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With respect to the supply of automobiles and spare parts, we rely on automobile manufacturers and their authorized suppliers to supply us with the automobiles and spare parts that we sell. If they are unable to manufacture and deliver their products to us as a result of factors beyond our control, such as component shortages, labor unrest or natural disasters, our business operations may be materially and adversely affected. Our automobile manufacturers are also responsible for anticipating changes in market trends and consumer tastes and demand to develop attractive automobile models. If any automobile model launched by any of our automobile manufacturers is not well received by the market, or if the popularity of any of their existing automobile models declines, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

With respect to sales and marketing, sales and marketing activities undertaken by automobile manufacturers, including advertisements on television, radio, newspapers and magazines, may increase consumer demand for their automobile products. We are authorized by manufacturers to carry out marketing activities in relation to the sale of automobiles, spare parts and accessories in agreed areas. If any automobile manufacturer were to reduce the scale of its marketing efforts, or adopt an unsuccessful marketing strategy or campaign, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our business and results of operations may be affected by product defects, automobile recalls and warranty claims.

Automobile recalls are conducted by automobile manufacturers from time to time to remedy product defects or other problems with one or more automobile models. See “Business — Our Business — Automobile Recalls” for more information of incidents of product recalls by our automobile manufacturers during the Track Record Period. Under the applicable PRC laws and regulations, we are generally not liable for any of the costs of the recall and are typically compensated by automobile manufacturers for our assistance in conducting the recall. However, any product defects or automobile recalls may damage the reputation of relevant automobile manufacturers and impair customers’ confidence in the quality and safety of the automobiles produced by such automobile manufacturers, which may in turn materially and adversely affect our business, financial condition, results of operations and growth prospects. Automobile recalls may also lead to the cancellation of orders placed by our customers and a decline in demand for automobiles that we sell, which may reduce our sales and result in a high level of inventories of the relevant automobile models subject to recall, automobiles of the same brand or their spare parts. We may have to incur significant costs associated with holding excessive inventories or lower our retail prices to reduce inventories, which could materially and adversely affect our business, financial condition and results of operations. We cannot assure you that there will not be future automobile recalls affecting automobile manufacturers or the models or spare parts we sell, nor that any such recalls would not cause a material adverse impact on our business and our operational and financial performance.

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We may not be able to manage our inventories effectively, which may adversely affect our business operations and financial condition.

Our business and financial condition depend on our ability to maintain a reasonable level of inventories of new automobiles, spare parts and accessories at our 4S dealership stores. As of December 31, 2018, 2019 and 2020, our inventories represented approximately 42.8%, 37.5% and 28.0% of our total current assets, respectively. Our average inventory turnover days were approximately 37.6 days, 36.9 days and 26.7 days, respectively, for the same years. Automobile manufacturers typically prefer that we maintain a minimum or adequate level of inventories in our dealership stores for display and meeting customers' demands in a timely manner. See "Financial Information — Description of Certain Key Items from Our Consolidated Statements of Financial Position — Current Assets and Current Liabilities — Inventories". In the event that we overstock inventories, we may be required to increase our working capital and incur additional financing costs, and may need to adopt more promotional activities to dispose of these inventories, which may have an adverse impact on our results of operations. If we understock inventories, we may not be able to satisfy customer demand on a timely basis, which may cause us to forgo revenue and adversely affect our reputation.

Our after-sales services are dependent on automobile manufacturers, third-party suppliers of accessories and other automobile-related products, as well as our sales personnel and automotive engineers and technicians.

Our after-sales services primarily consist of repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and automobile license plate registration services. Repair services under automobile manufacturers' warranties are charged to the automobile manufacturers instead of the customers. As a result, a reduction in the term or coverage of such warranties could reduce the willingness of our customers to seek repair services from our dealership stores, which in turn may have an adverse effect on our after-sale services and results of operations.

We also depend on automobile manufacturers to provide training to our dealership store managers, customer services and sales personnel and automotive engineers and technicians to familiarize them with the features and proper maintenance of and repair procedures for automobiles of the particular brand. In addition, our ability to maintain high quality customer services and after-sales services is dependent on the continued service of, and our ability to attract, train, motivate and retain our dealership store managers, customer services and sales personnel, and automotive engineers and technicians for the performance and continued success of our business. Due to the rapid growth of the PRC economy and the PRC automobile industry, the competition for such personnel is increasingly intense. There is no assurance that we will be able to attract, train, motivate and retain the necessary personnel to grow and develop our after-sales services or continue to deliver high-quality after-sales services that meet customers' needs. Our financial condition, management and results of operations may be materially and adversely affected if we fail to attract and retain the experienced personnel we need for our after-sales services.

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In addition, we are dependent on third-party suppliers for the accessories and other automobile-related products we sell. The success of our after-sales business is dependent on these suppliers' abilities to anticipate changes in consumer tastes, preferences and requirements and deliver to us in sufficient quantities and on a timely basis the desirable, high-quality and price competitive mix of accessories and other automobile-related products. If our suppliers' products fail to meet our customers' expectations, or if we are unable to maintain a sufficient stock, or if our suppliers increase their prices due to increasing demand for their products from other dealership stores, our margins of these products may be affected, which in turn could adversely affect our results of operations and financial condition.

Our major automobile manufacturers were also our customers during the Track Record Period.

We rely on our business cooperation with our major suppliers, most of which are domestic joint ventures of automobile manufacturers. During the Track Record Period, our major automobile manufacturers were also our customers, primarily because we provided in-warranty repair services to automobile suppliers which compensated us for the in-warranty repair services that we rendered and the costs of related spare parts that we used. In this regard, our major automobile suppliers would also be treated as our customers. For the years ended December 31, 2018, 2019 and 2020, our revenue generated from in-warranty services, which were paid by our major automobile manufacturers, was RMB68.0 million, RMB82.4 million and RMB115.6 million, respectively, accounting for 0.8%, 1.0% and 1.4% of our total revenue for the same years, respectively.

As most of our suppliers are key players in the automobile industry in the PRC with a strong market position, we may have limited bargaining power and need to concede to certain requests made by these manufacturers in order to maintain good relationships with them. If any of our major automobile manufacturers experience any liquidity problems, it may result in delay or default in settling the in-warranty repair service fees, which in turn will have an adverse effect on our business, financial condition and results of operations.

We may not be able to successfully implement our expansion plans.

Our growth strategy is to expand our network in the tier-one and tier-two cities in China over the next few years through a combination of organic growth and selected acquisitions. See "Business — Our Strategies" in this prospectus for more information. There are significant risks involved in our expansion plans, including whether we will be able to (i) obtain authorizations for new 4S dealership stores; (ii) access adequate financial resources; (iii) negotiate the terms of new leases or land use rights successfully for properties in desired locations; (iv) identify and secure suitable acquisition targets and successfully integrate the acquired businesses into our network; (v) obtain appropriate licenses, permits and approvals from relevant PRC government authorities on a timely basis; (vi) commence and ramp up the operations of new dealerships and improve the performance of acquired stores to achieve our

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target profitability within expected time frames; (vii) hire, train and retain sufficient qualified staff; (viii) generate sufficient revenue to cover our indebtedness, costs or contingent liabilities associated with our expansion; and (ix) timely re-evaluate and revise our expansion plans as needed.

In addition, various factors beyond our control may significantly influence the results of our growth strategy, including general economic conditions and changes to the PRC laws and regulations, particularly in the automobile dealership industry and the specific geographic areas where we operate, the market demand for new automobiles, especially luxury and ultra-luxury automobile market, and business or operational strategies and policies adopted by automobile manufacturers, other suppliers as well as our competitors.

During the Track Record Period, our revenue decreased by approximately 2.7% from RMB8,409.2 million for the year ended December 31, 2018 to RMB8,178.8 million for the year ended December 31, 2019. Our revenue increased by 4.3% from RMB8,178.8 million for the year ended December 31, 2019 to RMB8,533.1 million for the year ended December 31, 2020. There is no assurance that the decrease in our revenue will not continue or we will be able to manage our growth successfully. Should any or all of the risks in relation to our expansion plans materialize, we may not be able to benefit from expansion, take advantage of market opportunities, execute our business plans or respond to competitive pressure and our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to obtain requisite approval from the automobile manufacturers to establish new dealership stores.

We plan to open new 4S dealership stores for the brands that we currently operate in tier-one and tier-two cities in China. In order to establish such dealership stores, we may proactively communicate with the relevant automobile manufacturer to indicate our interests in opening a new dealership store in a particular region and formulate a proposal which sets out the background information of the operating entity, the track record of our Group in operating 4S dealership stores and a preliminary plan in relation to, among others, the properties or land to be used for the new dealership store and the expected timeline for the construction and renovation of the premises. The manufacturers have the ultimate discretion to decide the location of new dealership stores. Additions of new dealership stores also depend on whether the automobile manufacturers have plans, or invite for applications from dealers, to establish new 4S dealership stores in China, which are beyond our control. We are not able to take the initiative to apply for the establishment of new dealership stores if the automobile manufacturers do not have such plans and our failure to obtain requisite approval from the automobile manufacturers to establish new dealership stores will have a material adverse effect on our business, financial condition and results of operations.

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If we determine our intangible assets (other than goodwill) to be impaired, our results of operations and financial condition may be adversely affected.

As of December 31, 2018, 2019 and 2020 our intangible assets amounted to RMB561.9 million, RMB541.0 million and RMB549.1 million, respectively, which were primarily related to our software for ERP system and the dealership agreements we entered into with various automobile manufacturers. The value of intangible assets is based on a number of assumptions made by our management. If any of these assumptions does not materialize, or if the performance of our business is not consistent with such assumptions, we may have to write off a significant portion of our other intangible assets and record a significant impairment loss. In addition, our determination on whether intangible assets are impaired requires an estimation of the carrying amount and recoverable amount of an intangible asset. If the carrying amount exceeds its recoverable amount, our other intangible assets may be impaired. During the Track Record Period, we did not recognize impairment losses in respect of our intangible assets. However, we cannot guarantee you that in the future we will not record any impairment loss on our intangible assets. The impairment of our other intangible assets could have a material adverse effect on our business, financial condition and results of operations. For further details of our accounting policies with respect to intangible assets, please refer to “Financial Information – Critical Accounting Policies, Judgement and Estimates – Intangible Assets (Other Than Goodwill)” in this prospectus.

Goodwill impairment could adversely affect our results of operations.

We record goodwill in connection with acquisitions. Goodwill is initially measured at cost, and tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. We perform our annual impairment test of goodwill each year as of December 31 and after initial recognition, goodwill is measured at cost less any accumulated impairment losses. Testing for impairment requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There are inherent uncertainties related to these factors and to our judgment in applying these factors to the assessment of goodwill recoverability. We cannot assure you that we would always be able to make the right judgment and assessment relating to the value and recoverability of our goodwill. Any significant impairment of goodwill could have a material adverse effect on our results of operations.

As of December 31, 2020, we had a net carrying amount of RMB210.4 million of goodwill. If for any reason we should determine in the future that all or part of this amount of goodwill is impaired, we would need to record corresponding impairment losses, and our results of operations for any future periods in which such impairment losses are recorded would be materially and adversely affected. Our investors may view our business and financial performance negatively and our Share price may be negatively affected as well.

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Our historical financial information may not be indicative of our future financial performance.

For the years ended December 31, 2018, 2019 and 2020, our gross profit amounted to RMB825.2 million, RMB782.2 million and RMB863.6 million, respectively. Our gross profit margin was 9.8%, 9.6% and 10.1% for the same years, respectively. For detailed discussions of our historical performance, see “Financial Information” in this prospectus. We cannot assure you that we will achieve similar gross profit margin in the future. Our financial and operating results may not meet the expectations of public market analysts or investors, which may result in a decline in the future price of our Shares. Our revenue, costs and operating results may vary from period to period in response to a variety of factors beyond our control, including general economic conditions, laws and regulations in the jurisdiction where we undertake our business, and our ability to control costs. Therefore, our historical operating results, including the historical performance of each business segment, should not be relied on as an indication of our future performance, and you should not rely on our historical results to predict the future performance of our Shares.

In addition, our financial performance could be affected by the mix of products sold and services delivered by us. During the Track Record Period, we recorded higher gross profit margins for after-sales services than the sales of automobiles. For the years ended December 31, 2018, 2019 and 2020, our gross profit margin for our after-sales services was 48.2%, 46.8% and 45.2%, respectively, as compared to the gross profit margin for the sale of automobiles of 4.3%, 3.7% and 5.1%, respectively, for the same years. We may not be able to maintain the gross profit margin of our after-sales services at a rate comparable to the historical rates or equal to, or higher than, that of our sales of automobile business in the future. Accordingly, our gross profit margin may be lower than our expectations or vary significantly from period to period. As a result, our profitability may vary from period to period due to changes in the mix of products and services we offer during the relevant periods.

We might not be able to fulfil our obligations in respect of contract liabilities, which might have an adverse effect on our cash/liquidity position.

As of December 31, 2018, 2019 and 2020, our contract liabilities were RMB323.5 million, RMB309.8 million and RMB357.4 million, respectively. Our contract liabilities primarily consist of (i) advances from customers for purchasing new automobiles; and (ii) deferred revenue, which mainly represents the unused gift cards or coupons in connection with our repair and maintenance services. The gift cards, which are generally valid for one year, are granted to our customers for our after-sales services when they purchase new automobiles from our 4S dealership stores. The amount of such prepaid gift cards is recorded to deferred revenue when we grant to customers and will be recognized to revenue upon use of such prepaid gift cards for our after-sales services or upon expiration. We also sell coupons, which generally do not specify the expiration date, to customers for our repair and maintenance services. The amount of such coupons is firstly recorded to deferred revenue when customers purchase the coupons and subsequently transferred to revenue when they use such coupons. There is no assurance whether and when the customers will use the gift cards or coupons. Our recognition

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of deferred revenue is subject to future performance obligations and may not be representative of revenue for future periods. Any failure to fulfil the obligations in respect of deferred revenue may have an adverse impact on our results of operations and liquidity.

We are exposed to fair value changes for financial assets at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain.

During the Track Record Period, we had invested in short-term wealth management products issued by licensed commercial banks in the PRC. As of December 31, 2018, 2019 and 2020, our financial assets at fair value through profit or loss amounted to RMB185.9 million, RMB197.0 million and RMB439.0 million, respectively.

It is our Group's financial management practice to deploy cash resources in an effective manner by making appropriate investments in short-term financial instruments that generate income without interfering with our business operations or capital expenditures. Since the value of our investments depends on the investment performance of the underlying assets in which the funds invest, our investments are subject to all of the risks associated with those underlying assets, including the possibility of a default by, or bankruptcy of, the issuers of such assets. Any potential realized or unrealized losses in our investments in the future resulting from the changes in the value of the financial instruments we invested in may adversely affect our business, financial condition and results of operations. The fair value of our wealth management products that are not traded in an active market is determined using valuation techniques, which require judgement and assumptions and involve the use of unobservable input, such as the expected yield of the underlying investment portfolio and discount rate. Changes in the basis and assumptions used in the estimation could materially affect the fair value of these assets. Factors beyond our control can significantly influence and cause adverse changes to the estimates and thereby affect the fair value. These factors include, but are not limited to, general economic conditions, changes in market interest rates and stability of the capital markets. The valuation may involve a significant degree of judgement and assumptions which are inherently uncertain, and may result in material adjustment, which in turn may materially and adversely affect our results of operations.

We are subject to credit risk in relation to our trade receivables.

As of December 31, 2018, 2019 and 2020, the carrying amount of our trade receivables was RMB71.3 million, RMB65.3 million and RMB38.2 million, respectively. Our trade receivables primarily represent (i) receivables from financing companies in connection with the purchase of new automobiles for which the customers used the financing companies' mortgage services to make the payment; (ii) receivables of after-sales service fees from insurance companies in connection with the after-sales services we provided which were covered by insurance; (iii) receivables of reimbursement from manufacturers in connection with the after-sales services we provided; and (iv) receivables from certain customers for the

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provision of after-sales services. As of December 31, 2018, 2019 and 2020, the average turnover days of our trade receivables were approximately 3.9 days, 3.0 days and 2.2 days. For further details about our credit risk exposure, see note 43 of the Accountants' Report in Appendix I to this prospectus.

Should the credit worthiness of insurance companies, financing companies, manufacturers or customers deteriorate, a significant number of the abovementioned parties fail to settle their trade receivables in full for any reason or they delay in making payments to our Group within the credit period, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected. Our liquidity and operational cash flows could be materially and adversely affected if the trade receivables cycles or collection periods lengthen or if we encounter a material increase in default of payment from these parties. We cannot assure you that our customers, insurance companies, financing companies or manufacturers will meet their payment obligations on time or in full, or that our trade receivable turnover days will not increase. Any inability on the part of our customers to settle or promptly settle the amount due to us may materially and adversely affect our business, financial condition and results of operations.

We may be subject to penalties from the PBOC or adverse judicial rulings as a result of extending loans to related parties during the Track Record Period.

During the Track Record Period, we granted loans to our related parties, namely Beijing Zhoushi, eCapital, Betterlife (China) Investment Co., Ltd, Beijing Xiaobo Technology Co., Ltd, Beijing eCapital Kechuang Technology Group Ltd.* (北京易匯科創科技集團有限公司) (formerly known as eCapital Technology Development Group Ltd.* (易匯科創集團有限公司)) and Beijing Zhoushi Xingye Branding and Management Co., Ltd., which were non-trade in nature.

The loans to our related parties were not allowed under the General Lending Provisions (貸款通則) promulgated by the PBOC in 1996, the Banking Regulation Law of the PRC (中華人民共和國銀行業監督管理法) promulgated by the Standing Committee of the National People's Congress in 2003 and amended in 2006 and other relevant laws and regulations, until the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (the "Private Lending Regulations") was promulgated on August 6, 2015 and came into effect on September 1, 2015.

According to the Private Lending Regulations, lending contracts among companies are valid if they are made for purposes of supporting production or business operations except for circumstances stipulated in the relevant provisions of the Civil Code and the Private Lending Regulations, which may result in a void contract. From September 1, 2015 to August 20, 2020, which was prior to the revision of the Private Lending Regulations, when the interests agreed upon by both parties did not exceed the annual interest rate of 24% and the lender requested the borrower to pay interests according to the agreed interest rate, the PRC courts should

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support it. Since August 20, 2020, according to the revised Private Lending Regulations, the overdue interest rate agreed by the borrower and lender shall not exceed four times of the loan prime rate for one-year loan when the contract is concluded.

As confirmed by our Directors, (i) our related party loans were generated after September 1, 2015, when the Private Lending Regulations became effective and we have already ceased to charge interests on loans made to related parties as of the Latest Practicable Date; (ii) there is no circumstance that may cause the loan contracts between us and the related parties to be invalid or any dispute between the relevant parties during the performance of the loan contracts; and (iii) as of the Latest Practicable Date, we had not received any notice or been penalized because of the interest-bearing loans. Based on the above, although our loans to related parties do not comply with the General Lending Provisions, our PRC Legal Advisor is of the view that the risk of us being penalized is low in respect of the above-mentioned borrowings under the condition that there are no material changes in current laws and regulations or the interpretation or implementation thereof in China. However, in the event that we are ordered by the PBOC to pay the penalties, our financial condition and results of operations may be adversely affected.

We may not record certain income and gains that are non-recurring in nature in the future, which may adversely affect our results of operations.

During the Track Record Period, we recorded certain income and gains that are non-recurring in nature, which mainly included a one-off compensation income of RMB114.9 million that we received in 2018 from a contract-related lawsuit brought by us regarding the land use rights of certain properties in Beijing that we intended to obtain for using as the premises of new dealership stores and interest income from loans to related parties. For the years ended December 31, 2018, 2019 and 2020, interest income that we generated from loans to related parties amounted to RMB5.7 million, RMB8.6 million and RMB10.6 million, respectively. These loans had been repaid in full as of the Latest Practicable Date. See “Financial Information – Major Components of Our Results of Operations – Other Income and Gains” in this prospectus and note 5(b) of the Accountants’ Report in Appendix I to this prospectus for details. The non-recurring nature of the compensation income and the loans to related parties has led to changes in certain items in our historical financial statements, such as “other income and gains”, which may affect the comparability of our results of operations.

Our continuing success depends on our ability to retain our senior management and key personnel.

Our success depends on the experience and skills of our current officers, management and key sales employees. In particular, our senior management has significant experience in the sale and dealership of automobiles. Our chairman of the Board, executive Director and chief executive officer, Mr. Chou, our executive Directors, Ms. Sun Jing and Ms. Wei Hongjing, and

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our chief financial officer and executive Director, Mr. Chau Kwok Keung are responsible for management and strategy of our Group and they have been fundamental to our achievements to date. The loss of any of these key personnel could adversely affect our ability to sustain and grow our business.

We cannot assure you that we will be able to hire additional qualified employees to strengthen our management team or integrate new management into our existing operations in order to keep pace with the proposed growth of our business. Furthermore, competitors may also seek to hire away our key personnel. Competition for experienced individuals is fierce in the industry. Our failure to retain our management team may hinder our ability to grow our business, which could materially and adversely affect our business, financial condition and results of operations.

The breakeven period and investment payback period of our 4S dealership stores may increase if our profit margins decline.

Based on our internal information for our dealership stores that have achieved break-even and realized return on investments, the breakeven period, which represents the period of time required for a dealership store to generate revenue equal to cost of sales and other operating costs, for our existing 4S dealership stores was generally approximately one year after the date of commencement of operations. The payback period for our 4S dealership stores, which represents the period of time required for accumulated net profit of such dealership store to recover the total capital expenditure incurred for setting up its operations, was generally within five years from the date of commencement of operations. The length of the breakeven and investment payback periods for a particular new 4S dealership store is determined in large part by the net profits generated by such 4S dealership which can be affected by a number of factors, including its profit margin, our ability to obtain the authorization from automobile manufacturers in respect of a new store, securing leases on reasonable terms, timely delivery of renovation work, ability to hire quality personnel and the general economic conditions, most of which are beyond our control. To the extent our profit margins decline for any such new 4S dealership stores, due to either industry-wide or dealership-specific factors, the breakeven and investment payback periods for such 4S dealerships may increase, which may in turn adversely affect our business, financial condition, results of operations and growth prospects.

Our business operations depend on dynamic information technology systems and any failure in our information technology systems could adversely affect our operations.

Our information technology systems are critical to the success of our business. In particular, our ERP system, which comprises the various systems for automobile sales and after-sales services management, is essential for our business development formulation. We rely on our ERP system and various other information technology systems to collect and analyze indicators of key aspects of our business. See “Business — Information Technology”.

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We upgrade our information technology systems from time to time to meet the changing requirements of our business. However, there can be no assurance that any upgrades or adaptation performed by us or our vendors will be implemented without disruption to our business, or that our information technology system will continue to meet the changing requirements of our business. We cannot assure you that we will be able to successfully keep up with technological improvements in order to meet our customers' needs or that the technology developed by others will not render our services less competitive or attractive. Also, any failure in our information technology systems due to faulty interaction with systems of other industry players, computer viruses, unauthorized access, wear and tear of hardware, failures on the part of internet service providers or other vendors or other factors could have an adverse effect on our results of operations. Our information technology systems are also subject to hacking or other cyber-attacks. We cannot assure you that we can successfully block and prevent all hackings or other cyber-attacks. As a result, failure to protect against technological disruptions of our operations could materially and adversely affect our business, financial condition and results of operations.

Improper disclosure, unauthorized use or unintended leak of customer information may result in liability for us and materially and adversely affect our reputation and business.

In the ordinary course of our business, we collect certain behavioral information provided by our customers, which is stored in our internal database. We take precautions for secured storage and usage of such confidential information. However, our security control may not be able to prevent the improper leakage of such confidential information. Any inability to adequately address privacy concerns, even if unfounded, or to comply with applicable privacy or data protection laws and regulations, could result in additional cost and liability to us, damage our reputation and harm our business. Furthermore, data privacy is subject to frequently changing rules and regulations, and our failure to adhere to or successfully implement procedures in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace.

In addition, the customer information we have collected and stored in our internal database is potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins, or similar disruptions. While we have taken steps to protect such information, our security measures could be breached. As techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or wilful security breaches or other unauthorized access to our technology system could cause confidential information to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity, which could adversely affect our business and results of operations.

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We face risks when we open a dealership store for a new brand or in a new area that we have not operated before.

Our growth relies on both increases in sales in our existing dealership stores and the ability to open or acquire new dealership stores. We face risks when we open a dealership store for a new brand, as our experience in operating these new brands may be limited. The success of operating a 4S dealership store for a new brand is largely dependent on various factors, including, among others, (i) our ability to maintain relationships with the automobile manufacturers and renew the dealership agreements on a timely basis; (ii) market perception of the brand and the popularity of this brand and its automobiles among local customers; (iii) the hiring, training and retention of competent sales and after-sales personnel to support our daily operations of the new dealership store; (iv) the effective management of inventory; (v) general economic conditions; and (vi) market competition. Many of these factors are beyond our control. Unfavorable market perception of the new brand, or lower than expected sales in new dealership stores, could materially and adversely affect our growth and profitability. In addition, we cannot assure you that the automobile manufacturers will not terminate the dealership agreements with us or close any dealership store due to the changes and adjustments on their own business plans or operation strategies.

Moreover, our new dealership stores may be located in areas where we have little or no meaningful experience or brand recognition. Those markets may have different competitive conditions, market conditions, consumer preferences and discretionary spending patterns than our existing markets, which may cause our new dealership stores for new brands to be less successful than stores in our existing markets.

Our non-compliance with certain laws and regulations in the PRC could lead to the imposition of administrative penalties, fines or other requests on us.

During the Track Record Period, we were subject to administrative penalties for failing to be in compliance with applicable PRC laws and regulations. For example, in January 2018, since two types of automobile models sold by our 4S dealership stores in Beijing were not listed on the catalog published by Beijing Environmental Protection Bureau of automobile models that meet environmental emission standards, we were subject administrative penalties imposed by Beijing Environmental Protection Bureau. According to the Regulations of Beijing Municipality on the Prevention and Control of Atmospheric Pollution (北京市大氣污染防治條例), enterprises that sell motor vehicles that are not included in the aforementioned environmental protection catalog shall be ordered by the municipal environmental protection administrative department to stop their illegal activities, confiscate their illegal income, and may impose a fine of no more than one time the value of the affected goods. Therefore, we, as the seller, were ordered by the relevant government authorities to stop selling these two types of automobile models and forfeit income of RMB557,994.6 derived from sales of these two types of automobile models, and an administrative fine of RMB557,994.6 was imposed on us. As of the Latest Practicable Date, we had fully settled the administrative fines. However, any similar non-compliance or violations of applicable PRC laws and regulations in the future

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may subject us to administrative fines, confiscation of gains derived from the illegal activities and/or other penalties and administrative actions, which may impair our brand name and reputation and adversely affect our financial condition and results of operations.

In addition, for the year ended December 31, 2018, (i) the total outstanding amount of our social insurance contribution was RMB16.1 million; and (ii) the total outstanding amount of our housing provident fund contribution was RMB7.8 million. According to the relevant PRC laws and regulations in respect of social insurance contributions, if we do not pay the full amount of social insurance contributions as required, the relevant authorities may demand us to pay the outstanding social insurance contributions by the deadline stipulated by them and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay. We may be liable to a fine from one to three times the amount of the outstanding contributions if we fail to make such payments by the deadline stipulated by them. In respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within the time period stipulated by relevant authorities. If payment is not made within such stipulated time period, relevant PRC authorities may apply to PRC courts for compulsory enforcement. In May 2021, one of our operating entities, Tianjin BetterLife Auto, paid a total shortfall amount of approximately RMB2.6 million of the contributions to the social insurance fund under a notification received from the branch of Tianjin Social Insurance Fund Management Center of Tianjin Port Free Trade Zone (天津市社會保險基金管理中心保稅區分中心), which was covered in our provision for shortfall in contributions to social insurance fund.

We may not be able to use certain properties leased by us due to the defects affecting our leasehold interests.

We have leased certain properties in China to operate our 4S dealership stores. As of the Latest Practicable Date, we leased a total of 27 properties with a total gross floor area of 80,120.8 sq.m. Some of the leased properties we use for our operations are not in compliance with applicable laws and regulations in the PRC. As of the Latest Practicable Date, (i) there was inconsistency between the actual use of the leased properties and approved use; (ii) the actual site areas occupied by certain of our leased properties exceeded the approved areas on the land use rights certificates; (iii) certain of our leased properties were lack of the requisite permits and certificates; and (iv) our lease agreements were not registered with the relevant government authorities. For details on the non-compliance and the associated legal consequences, see “Business — Properties” in this prospectus.

Any dispute or claim in relation to the rights to lease and use the properties occupied by us, including any litigation involving allegations of illegal or unauthorized use of these properties, may cause disruptions to, or require us to relocate, our business operations. If any of our lease agreements were terminated as a result of any challenge by third parties or any failure of our lessors to renew the lease agreements or obtain their legal title or the requisite government approval or consent to lease the relevant properties, we may need to seek alternative premises and incur additional costs for relocation. Any such relocation could disrupt our operations and adversely affect our business, financial condition and results of operations.

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We may be involved in legal and other disputes and claims from time to time arising out of our operations.

We may, from time to time, be involved in legal proceedings with our customers, suppliers or other parties involved in our business. For instance, in 2019, an individual, who is an Independent Third Party, initiated court proceedings in Beijing against us seeking over RMB1.0 million in damages because the automobile that he purchased from our Group caught fire while on drive. The court held that, (i) it cannot be ruled out that the fire was caused by electrical system failure of the automobile; (ii) as the automobile had an unreasonable danger to personal and property safety, there is a product quality defect; and (iii) we, as the dealer of the automobile, shall be liable for the plaintiff's damage due to the defect of the automobile. We appealed and the second instance court rendered the final judgement on April 27, 2021, which upheld the first instance judgement and ordered us to compensate the customer for a total of RMB958,400. See "Business — Legal Proceedings and Regulatory Compliance" in this prospectus for details. We cannot assure you that any legal action arising in the ordinary course of our business will be resolved in our favor. In the event that such legal actions cannot be resolved in our favor, we may be subject to uncertainties as to the outcome of such legal proceedings and our business operations may be disrupted. Legal or other proceedings involving us may, among others, incur significant costs, divert management's attention and other resources, cause negative publicity against us or damage our reputation, regardless whether we are successful in defending such claims or proceedings. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Accidents or injuries in our 4S dealership stores may adversely affect our reputation and subject us to liability.

In the course of the repair and maintenance of passenger vehicles at our 4S dealerships, certain of our employees work with and around heavy machinery, moving vehicles and chemicals (such as motor oil and brake fluid). Furthermore, in the course of our day to day operations, vehicles frequently need to be moved around within our dealership stores. Consequently, there are inherent risks of accidents and injuries among our employees, and to a certain extent our customers and other visitors, at each of our 4S dealership stores. The occurrence of one or more accidents or injuries at any of our 4S dealership stores could adversely affect our safety reputation among current and potential employees and customers, decrease our sales, and increase our costs by requiring us to implement additional safety measures. In addition, if accidents or injuries occur at any of our 4S dealership stores, we may be held liable for costs or damages and fines. Our current property and liability insurance policies may not provide adequate or any coverage for such losses, and we may be unable to renew our insurance policies or obtain new insurance policies without increases in premiums and deductibles or decreases in coverage levels, or at all. See also "Our insurance may be inadequate to protect us from all potential losses" in this section.

Our insurance may be inadequate to protect us from all potential losses.

We carry insurance covering risks including losses and theft of and damage to our properties such as our fixed assets and inventories in all of our dealership stores, and losses due to fire, flood, earthquake and a broad range of other natural disasters. We also carry public liability insurance covering potential liabilities for damage that customers may suffer in our 4S dealership stores. We do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of our business, neither do we maintain any insurance coverage for business interruption due to the limited coverage of any business

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interruption insurance in China. Significant uninsured damage to any of our properties, inventories or other assets, whether as a result of fire or other causes, could have a material adverse effect on our results of operations. In addition, we operate our own fleet of trucks in our business, and our automobiles may be involved in accidents that result in property damage or significant bodily injury or wrongful death to claimants. If we experience claims raised by such claimants that are not covered by our insurance or that exceed our insurance limits or reserves, or if we experience claims for which coverage is not provided, our financial condition and results of operations could be materially and adversely affected.

We may not be able to protect our intellectual property rights and may be subject to infringement claims.

Our ability to obtain and maintain our intellectual property rights and to defend ourselves against third-party infringement claims is critical to our success. As of the Latest Practicable Date, we had registered 53 trademarks in the PRC and three trademarks in Hong Kong. As of the Latest Practicable Date, we had registered 16 domain names. See “C. Further Information about Our Business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus for further details. We cannot assure you that the measures we currently adopt to protect our intellectual property rights are sufficient to prevent any unauthorized use of our intellectual property by third parties. Although we generally rely on trademark and copyright laws in the PRC to protect our intellectual property rights, we cannot assure you that there will not be any third-party infringement. As the validity, enforceability and scope of protection of intellectual property rights could be uncertain, in the event that we need to resort to litigation or other proceedings to protect our intellectual property rights against third party infringers, this could result in substantial costs incurred, loss of time and diversion of resources. We cannot assure you that we can achieve a favorable outcome in any such litigation or proceeding.

In addition, we cannot assure you that we have not infringed, or will not inadvertently infringe, the intellectual property rights of any other third parties where others may institute infringement claims against us. In the event that we are unable to adequately safeguard our intellectual property rights, or to successfully defend ourselves from infringement claims, we may lose our competitive advantage and our reputation, business and results of operations may be adversely affected.

Any occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on our business performance and results of operations.

Our business could be adversely affected by natural disasters or outbreaks of epidemics, which may affect the opening of our 4S dealership stores and our procurement of automobiles, accessories or other related products from the automobile manufacturers. Epidemics, pandemics or outbreaks or escalation of diseases, including, among others, Severe Acute Respiratory Syndromes (SARS), avian influenza, swine flu (H1N1), COVID-19 and other diseases may affect the livelihood of people in the PRC. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in the PRC could severely disrupt our business operations by restricting travel and damaging our network infrastructure or information technology systems, impact the productivity of our workforce, or reduce the demand for passenger vehicles, which may materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

We are exposed to the risk that certain products, such as spare parts, accessories and other automobile-related products to be offered by us for sale in our dealership stores may be imported to the PRC through parallel trading.

We purchase all of our new automobiles and substantially all of our spare parts and accessories from automobile manufacturers and their authorized suppliers, and we purchase other automobile-related products from both automobile manufacturers and third parties. Certain products that we sell at our dealership stores, such as tires, mats and umbrellas can be imported to the PRC by parallel traders. These parallel-imported products may be sold at prices lower than ours owing to their lower operational and promotional costs and we do not have direct control over the actions of these parties in the PRC. Therefore, we may have to compete with these parallel-imported products in the PRC market and we cannot assure you that we will be able to compete against these parallel-imported products, which may materially and adversely affect our business, financial condition and results of operations. Furthermore, if there is any quality issue on the parallel-imported products due to the parallel traders' improper inventory management, it may lead to negative publicity on the products and the brands we operate, which may cause damage to our reputation.

RISKS RELATING TO OUR INDUSTRY

The risk of disintermediation of automobile manufacturers and their establishment of their own dealership stores may affect our competitiveness.

The Measures for the Administration of Automobile Sales (汽車銷售管理辦法), which came into effect on July 1, 2017, allows sales of automobiles to be carried out with or without authorized dealership agreements. It also stipulates that, save as agreed otherwise in the dealership agreements, automobile manufacturers are not allowed to conduct direct sales to customers in geographic areas in which authorized dealers are appointed. However, according to the Frost & Sullivan Report, there is an emerging business model adopted by new energy vehicle manufacturers, in which such manufacturers will make use of internet and technology, such as mobile applications, to carry out direct sales of automobiles to their customers instead of appointing authorized dealers as their distributors. The adoption of such business model is likely to become a challenge to the overall passenger vehicle dealership market in China.

If there is any change in the relevant regulation allowing our automobile manufacturers to set up their own dealership stores in the cities where our relevant authorized dealership stores are located or the automobile manufacturers, especially those we cooperate with, decide to adopt the internet direct sales model, our competitiveness in the passenger vehicle dealership market in the PRC may be diminished and the growth prospects of our 4S dealership stores may be adversely affected.

RISK FACTORS

We operate in a regulated industry, and any failure by us to obtain or maintain necessary approvals, licenses and permits in a timely manner, or at all, may adversely affect our business and operations and subject us to fines and other penalties.

We operate in a regulated industry. We are required to maintain various approvals, licenses and permits for our operations, including the road transportation license and business record and the license for concurrent-business insurance agency, and to make record filings with the relevant government authorities. Failure to obtain or maintain necessary approvals, licenses and permits by us may adversely affect our business or operations and subject us to fines and other penalties. As of the Latest Practicable Date, we had obtained all requisite licenses, permits and approvals and completed the required filings with the relevant government authorities for our business operations in all material respects.

Furthermore, there can be no assurance that the PRC government will not amend or revise existing laws, rules or regulations to require additional approvals, licenses or permits, or to impose stricter requirements to obtain or maintain the approvals, licenses or permits required for our business operations. Any loss of or failure to obtain or renew our approvals, licenses, or permits could disrupt our operations and any fines or other penalties imposed by the PRC government could materially and adversely affect our results of operations, financial position and reputation.

Our performance and growth prospects may be negatively affected by the increasingly competitive nature of the PRC automobile dealership market.

The PRC automobile dealership industry is competitive. It is typical that automobile manufacturers grant non-exclusive automobile dealership rights to other dealerships within the same geographical area. As a result, we compete with dealerships that offer competing brands of automobiles as well as those that sell the same brands and models as we do. We also compete with independent repair shops and auto parts retail centers in after-sales services. We believe that dealership stores in the PRC compete for customers on the level of customer services, inventory of automobiles, capabilities of sales personnel, management personnel, automotive engineers and technicians and on the prices of their automobiles and services. Increased competition among automobile manufacturers and dealerships in the PRC automobile industry could impact our market share and result in a decrease in our revenue and profits and adversely affect our growth prospects. Any changes in the business practices and regulations of the automobile dealership industry could allow new market participants to enter the dealership business, which may intensify competition and adversely affect our business and results of operations.

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RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Fluctuations in consumer spending in the PRC may significantly affect our business and financial performance.

Our sales and growth are indirectly dependent on consumer spending and the continued improvement of macroeconomic conditions in the PRC, where all of our revenue has been generated in the past and is expected to be generated in the future. There are many factors affecting the level of consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, uncertainties involved in the global political environments, taxation, stock market performance, unemployment levels, general consumer confidence, government spending and the credit policy of financial institutions. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy. We can provide no assurance that the PRC economy will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our business, financial condition, results of operations and growth prospects. In addition, as the PRC government has gradually tightened its control on spending on automobiles by government entities, it could result in decreased demand for luxury goods, including luxury and ultra-luxury automobiles.

Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our corporate structure, business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and government structure. These reforms have resulted in significant economic growth and social prospects. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. We cannot predict whether changes in the PRC political, economic and social conditions or laws, regulations and policies will have any adverse effect on our current or future corporate structure, business, financial condition or results of operations. The PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. Stricter credit or lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our

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expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten credit or lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for our automobiles, our corporate structure and our business, financial condition and results of operations may be materially and adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation.

These factors are affected by a number of variables which are beyond our control.

Political tensions between China and the European Union or any other country of origin of the automobile brands we sell could adversely affect our business, financial condition and results of operations.

The European Union imposed sanctions on Chinese officials and entity for human rights issues in Xinjiang on March 22, 2021. China swiftly retaliated against the European Union, announcing its own blacklist of European Union individuals and entities. Worsening tensions between China and the European Union may jeopardize the trade relations between the two sides. All of the brands for which we operate 4S dealership stores are European automobile brands. For the years ended December 31, 2018, 2019 and 2020, we sold a total of 14,113, 13,233 and 13,480 automobiles, respectively, among which approximately 60.0%, 58.4% and 55.7% were imported models. We cannot assure you that the supplies of imported automobile models, spare parts, accessories and other automobile-related products will remain unaffected in light of the uncertainties relating the development of such political tensions between China and the European Union. Any trade restrictions imposed by the European Union and/or the PRC on automobile-related products may significantly increase our procurement costs and adversely affect our business, financial condition and results of operations.

PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business operations.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries that are foreign-invested enterprises, including the proceeds of the Global Offering, are subject to PRC regulations. Any foreign loan obtained by our PRC subsidiaries is required to be registered with SAFE or its local counterparts. In addition, the medium- or

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long-term debts with a maturity period of one year or above must be registered with the NDRC before the issuance, and the information on the issuance shall be reported to the NDRC within 10 working days after completion of the issuance. The aggregate amount of these foreign loans must not exceed the level prescribed by SAFE. The recipient of a foreign loan must submit the foreign loan registration certificate to open and maintain a special foreign exchange account with the PBOC or another SAFE approved bank, and may then repay the foreign loan with its own foreign exchange funds or by purchasing foreign exchange with Renminbi upon receiving SAFE approval. We may also determine to finance our PRC subsidiaries through capital contributions. These capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings with the Foreign Investment Comprehensive Management Information System (外商投資綜合管理信息系統) and must be registered at the SAMR or its local counterparts. There can be no assurance that we will be able to complete such filings or registrations on a timely basis, or at all. If we fail to complete such filings or registrations, our ability to capitalize the relevant PRC subsidiaries or fund our operations or utilize the proceeds of the Global Offering in the manner described in the section entitled “Future Plans and Use of Proceeds” may be negatively affected, which could materially and adversely affect the liquidity of our relevant PRC subsidiaries or our business, financial condition, results of operations and growth prospects.

PRC governmental control on the convertibility of Renminbi may affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. The majority of our income is received in Renminbi and shortages in the availability of foreign currencies may restrict our ability to pay dividends or other payments, or otherwise satisfy our foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. Approval from or filing with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, impose restrictions on access to foreign currencies for current account transactions and if this occurs in the future, we may not be able to pay dividends in foreign currencies to our Shareholders.

We face foreign exchange risk, and fluctuations in exchange rates could have an adverse effect on our business and investors’ investments.

The value of the Renminbi has been under the pressure of appreciation in recent years. Due to international pressure on the PRC to allow more flexible exchange rates for the Renminbi, the economic situation and financial market developments in the PRC and abroad and the balance of payment situation in the PRC, the PRC government has decided to proceed further with the reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility.

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Our revenue and costs are mostly denominated in Renminbi, and a significant portion of our financial assets are also denominated in Renminbi. We may, to a certain extent, rely on dividends and other distributions paid to us by our PRC operating subsidiaries to make dividend payments and other distributions to our Shareholders. Any significant change in the exchange rates of the Hong Kong dollar against Renminbi may materially and adversely affect the value of, and any dividends payable on, our Shares in Hong Kong dollars. For example, appreciation of Renminbi against the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert Hong Kong dollars into Renminbi for such purposes. An appreciation of Renminbi against the Hong Kong dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our Hong Kong dollar denominated financial assets into Renminbi, as Renminbi is the functional currency of our subsidiaries and PRC operating subsidiaries inside China. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the Hong Kong dollar against Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

Inflation in the PRC could negatively affect our profitability and growth.

The economy of China has been experiencing significant growth, leading to inflation and increased labor costs, which may also result in general increases in prices of goods. Along with the increase in prices of goods, the prices of automobiles, spare parts, accessories and other automobile-related products that we sell are expected to rise as well. Inflation in the PRC may lead to an increase in interest rates and a slowdown in economic growth in the PRC, which may negatively impact our business. The overall impact of inflationary pressure may adversely affect our business, financial condition, results of operations and growth prospects.

The legal system of the PRC is not fully developed and there are inherent uncertainties that may affect the protection afforded to our business and our Shareholders.

Our business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. As these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us and our Shareholders. Furthermore, due

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to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention.

As our Shareholder, you hold an indirect interest in our operations in the PRC. Our operations in the PRC are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. PRC company laws and regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections. As such, our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

It may be difficult to effect service of process upon us, our Directors or our executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.

On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "2006 Arrangement"). Under the 2006 Arrangement, where any designated people's court in the PRC or designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement by the parties, any party concerned may apply to the relevant people's court in the PRC or Hong Kong court for recognition and enforcement of judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

On January 18, 2019, the Supreme People's Court of the PRC and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "2019 Arrangement"). The 2019 Arrangement, for the reciprocal recognition and enforcement of judgments in civil and commercial matters between the courts in mainland China and those in the Hong Kong Special Administrative Region, stipulates the scope and particulars of judgments, the procedures and ways of application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the

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circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among others. After the judicial interpretation has been promulgated by the Supreme People's Court and the relevant procedures have been completed by Hong Kong, both sides shall announce a date on which the 2019 Arrangement shall come into effect. The 2019 Arrangement shall apply to any judgment made on or after its effective date by the court of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a written choice of court agreement has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

Most of our Directors and senior management members reside in the PRC and substantially all of our assets and substantially all of the assets of those persons are located in the PRC. Therefore, it may be difficult for investors to effect service of process upon those persons inside the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Dividends payable by us to our foreign investors and gains on sale of our Shares may be subject to withholding tax under the PRC tax laws.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, we may be deemed as a PRC resident enterprise by the PRC tax authorities for tax purpose. PRC income tax at the rate of 10% is applicable to dividends payable by a PRC "resident enterprise" to investors that are "non-resident enterprises" (representing those enterprises that do not have an establishment or place of business in China, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within China. Similarly, any gain realized on the transfer of Shares by such non-resident enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. If the dividends we pay to our Shareholders are regarded as income derived from sources within China, we may be required to withhold a 10% PRC withholding tax for the dividends we pay to our investors who are non-PRC enterprise Shareholders, unless otherwise reduced.

Under PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within China paid to individual investors, no matter they are PRC residents or not, and gains from PRC sources realized by such investors on the transfer of shares may be required to withhold a 20% individual income tax, unless otherwise reduced or exempted under applicable tax treaties or similar arrangements.

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If we are treated as a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within China and as a result be subject to the PRC income taxes described above. However, shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties may apply to the PRC tax authorities to be recognized as eligible for such benefits in accordance with the Announcement of SAT on Promulgation of the Administrative Measures for Entitlement to Treaty Benefits for Non-resident Taxpayers (國家稅務總局關於發佈<非居民納稅人享受協定待遇管理辦法>的公告), which was issued on October 14, 2019 and took effect on January 1, 2020. If determined to be ineligible for the applicable tax treaty benefits, gains obtained from sale of our Shares and dividends on our Shares paid to such Shareholders would subject to the PRC tax rates. In such cases, the value of our Shares may be materially and adversely affected.

The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business or our acquisition or restructuring strategies.

On February 3, 2015, SAT issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC 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) (the “Circular 7”), which provides comprehensive guidelines relating to, and heightened the PRC tax authorities’ scrutiny on, indirect transfers, by a non-resident enterprise, of assets (including equity interests) of a PRC resident enterprise. On October 17, 2017, SAT issued the Circular on Issues of Tax Withholding regarding Non-PRC Resident Enterprise Income Tax at Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告) (the “SAT Circular 37”), which came into effect on December 1, 2017. The SAT Circular 37 further clarifies the practice and procedure of the withholding of nonresident enterprise income tax.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. Our Company may be subject to filing obligations or taxed if our Company is transferor in such transactions, and may be subject to withholding obligations if our Company is transferee in such transactions, under the Circular 7 or the SAT Circular 37. For transfer of shares in our company by investors who are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under the Circular 7 or the SAT Circular 37. As a result, we may be required to expend valuable resources to comply with the Circular 7 or the SAT Circular 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

RISK FACTORS

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC resident Shareholders to personal liability, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect our financial position.

SAFE has promulgated the Circular of SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular 37”) on July 14, 2014 to replace the Circular of SAFE on Relevant Issues Concerning Foreign Exchange Administration for Financing and Return Investments by Domestic Residents through Special-Purpose Overseas Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知). According to the SAFE Circular 37, PRC residents (including PRC citizens and PRC enterprises) shall apply to SAFE or its local bureau to register foreign exchange for overseas investments before contributing to special purpose vehicles (the “SPVs”) with legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increases or decreases in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus. Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “SAFE Circular 13”), which was promulgated on February 13, 2015 and implemented on June 1, 2015, the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau, and the SAFE Circular 13 also simplifies some procedures relating to foreign exchange for direct investments.

We may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC residents, and may not always be able to compel our beneficiaries to comply with the requirements of the SAFE Circular 37. As a result, we cannot assure you that all of our Shareholders or beneficiaries who are PRC residents will at all times comply with, or in the future make or obtain, any applicable registrations or approvals required by the SAFE Circular 37 or other related regulations. Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in restrictions on the foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

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RISKS RELATING 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 Offer Price range for our Shares was the result of negotiations among us and Macquarie for itself and on behalf of Huatai 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 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 market, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment regarding automobile dealership industry and companies;
- changes in laws and regulations in China;
- our inability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

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In addition, the prices and trading volumes of the securities of companies quoted on the Stock Exchange have from time to time experienced significant fluctuations. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

Substantial sale or the expectation of substantial sale of our Shares in the public market in the future could cause the price of our Shares to decline.

The sale of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that such sale could occur, could adversely affect the market price of our Shares. There will be 600,000,000 Shares outstanding immediately following the Global Offering, assuming no exercise of the Over-allotment Option. Our Controlling Shareholders agreed that any Shares held by them will be subject to a lock-up after the Listing. See “Underwriting — Underwriting Arrangements and Expenses” in this prospectus for further details. However, the Underwriters may release these securities from these restrictions and such Shares will be freely tradable after the expiry of the lock-up period. Shares which are not subject to a lock-up arrangement represent approximately 25% of the total issued share capital immediately following the Global Offering (assuming no exercise of the Over-allotment Option) and will be freely tradable immediately following the Global Offering.

The interest of our Controlling Shareholders may differ from your interests and they may exercise their vote to the disadvantage of our minority Shareholders.

Immediately after the completion of the Global Offering and the Capitalization Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), our Controlling Shareholders will own 75% of our Shares. As such, our Controlling Shareholders will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who purchased Shares in the Global Offering. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

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Because the initial public Offer Price per Share is higher than the net tangible book value per Share, purchasers of our Shares in the Global Offering will experience immediate dilution.

The Offer Price of our Offer Shares is higher than the net tangible book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Offer Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible asset value of HK\$2.03 per Share, based on the maximum Offer Price of HK\$4.80 per Offer Share and existing Shareholders will receive an increase in the pro forma adjusted combined net tangible asset value per Share of their Shares. If we issue additional Shares in the future, purchasers of our Offer Shares may experience further dilution.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

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

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

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 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. See “Financial Information — Dividend Policy” for more information.

We may require additional funding for future growth.

We may be presented with opportunities to expand our business through acquisitions in the future. Under such circumstances, secondary issue(s) of securities after the Global Offering may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by means of issuing new equity securities in the future to new and/or existing Shareholders after the Global Offering, such new Shares may be priced at a discount to the then prevailing market price. Inevitably, existing Shareholders if not being

RISK FACTORS

offered with an opportunity to participate, their shareholding interest in our Company will be diluted. Also, if we fail to utilize the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exert pressure to the market price of our Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

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 in a number of ways, including the expansion of our dealership store network and upgrade and refurbishment of our existing dealership stores. See “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus for details. 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 this Global Offering.

We may grant employee share options and other share-based compensation, which may materially and adversely affect our results of operations and the trading price of our Shares in the future.

We conditionally adopted the Share Option Scheme on June 17, 2021, under which we may grant options to purchase up to 60,000,000 Shares to our Directors, senior management and employees as rewards for their contributions and to attract and retain key personnel. In the event we issue such share options, the fair value of the services received in exchange for the grant of these share options will be recognized as share-based compensation expenses, which will have a material adverse effect on our profits. Moreover, exercise of the share options we have granted or plan to grant will increase the number of our Shares in issue. Any actual or perceived sale of additional Shares acquired upon the exercise of the share options we have granted or plan to grant may materially and adversely affect the trading price of our Shares.

Waivers have been granted from compliance with certain requirements of the Listing Rules by the Stock Exchange. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Stock Exchange has granted to us, a number of waivers from strict compliance with the Listing Rules. See “Waivers from Strict Compliance with the Listing Rules” for further details. There is no assurance that the Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to

RISK FACTORS

additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could adversely affect us and our Shareholders.

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from the Frost & Sullivan Report contained in this prospectus.

Certain facts and statistics in this prospectus, including but not limited to information and statistics relating to the PRC automobile market and the PRC automobile dealership industry, are based on the Frost & Sullivan Report or are derived from various publicly available publications, which our Directors believe to be reliable.

We cannot guarantee the quality or reliability of such facts and statistics. We have taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such publications and the Frost & Sullivan Report. However, these facts and statistics have not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Underwriters or any other party involved in the Global Offering (excluding Frost & Sullivan in respect of the Frost & Sullivan Report and the information therein) and no representation is given as to its accuracy. We therefore make no representation as to the accuracy of such facts and statistics which may not be consistent with other information compiled by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the Frost & Sullivan Report contained in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “going forward”, “intend”, “plan”, “project”, “seek”, “expect”, “may”, “ought to”, “should”, “would” or “will” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this prospectus to the public, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You may face difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Companies Act and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in 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 in other jurisdictions.

You should read the entire prospectus carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

There may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations are primarily located in the PRC and will continue to be based in the PRC, our executive Directors and senior management members are and will continue to be based in the PRC. At present, except for Mr. Chau Kwok Keung, none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and obtained, a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Ms. Sun Jing and Mr. Chau Kwok Keung, our executive Directors. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by home, office, mobile and other telephone numbers, email address and correspondence address (if the authorized representative is not based at the registered office), facsimile numbers if available, and any other contact details prescribed by the Stock Exchange from time to time. Each of the authorized representatives has been duly authorized to communicate on our behalf with the Stock Exchange. Mr. Chau Kwok Keung is ordinarily resident in Hong Kong and Ms. Sun Jing has confirmed that she possesses valid travel documents to Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required;
- (b) our authorized representatives have means of contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Stock Exchange, the authorized representatives and our Directors, our Company has implemented a policy whereby
 - (i) each Director will provide his/her office phone number, mobile phone number, residential phone number, office facsimile number (if any) and email address to the authorized representatives;
 - (ii) each Director will provide valid phone numbers or means of communication to the authorized representatives when he/she travels; and
 - (iii) all Directors will provide their mobile phone numbers, office phone numbers, email addresses and office fax numbers (if any) to the Stock Exchange;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (c) our Company has, in accordance with Rule 3A.19 of the Listing Rules, also appointed Maxa Capital Limited as its compliance advisor, who will act as an additional channel of communication with the Stock Exchange. The compliance advisor will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date;
- (d) meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or our Company's compliance advisor, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in our Company's authorized representatives and compliance advisor; and
- (e) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period upon request.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. For further details, see "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information about our Group. Our Directors, having made all reasonable enquiries, confirm 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 herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Global Offering is made solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorized in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, any of their respective directors, officers, representatives or affiliates of any of them or any other person or party involved in the Global Offering.

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 related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement, and the International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement. The Global Offering is subject to our Company and Macquarie (for itself and on behalf of Huatai and the Underwriters) agreeing on the Offer Price.

The Global Offering is managed by Macquarie for itself and on behalf of Huatai. If, for any reasons, the Offer Price is not agreed upon between our Company and Macquarie (for itself and on behalf of Huatai and the Underwriters) on or around Saturday, July 10, 2021, the Global Offering will not proceed and will lapse immediately. For further details, please see "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Further information about the Underwriters and the underwriting arrangements is set forth in “Underwriting” in this prospectus. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the 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.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus and the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus 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 and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

Each person acquiring the Offer Shares will be required to, or be deemed by his/her/its acquisition of Offer Shares, to confirm, that he/she/it is aware of the restrictions on offers and sale of the Offer Shares described in this prospectus and that he/she/it is not acquiring, and has not been offered, any Offer Shares in circumstances contravene any such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has 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 the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, Shares to be issued under the Capitalization Issue and Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme). Save as disclosed in this prospectus, no part of the share or loan capital of our Company 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.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealing in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Thursday, July 15, 2021. Shares will be traded in board lots of 1,000.

The stock code for the Shares is 6909.

Our Company will not issue any temporary documents of title.

REGISTER OF MEMBERS AND STAMP DUTY

All Offer Shares subscribed for and issued pursuant to applications made in the Global Offering will be registered on our Company's branch register of members to be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Our Company's principal register of members will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

Dealings in Offer Shares registered in the branch register of members of our Company maintained in Hong Kong 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, disposing of and dealing in the Offer Shares. None of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, any of their respective directors, officers, representatives or affiliates 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 disposition of Offer Shares.

For potential investors who are non-PRC resident enterprises, please also see "Risk Factors — Risks Relating to Conducting Business in China — Dividends payable by us to our foreign investors and gains on sale of our Shares may be subject to withholding tax under the PRC tax laws" and "Regulatory Overview" in this prospectus for further details.

If we are classified as a PRC "resident enterprise", we could be subject to PRC income tax at the rate of 25% on our worldwide income, and holders of our Shares may be subject to a PRC withholding tax upon the dividends payable by us and upon gain from the sale of our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares — B. Terms and Conditions of an Application” in this prospectus.

ROUNDING

Certain monetary 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 which precede them.

OVER-ALLOTMENT OPTION AND STABILIZATION

For details of the arrangements relating to the Over-allotment Option and stabilization, please see “Structure of the Global Offering — Over-Allotment Option” and “Structure of the Global Offering — Stabilization” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the 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 the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the 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 advice for details of these settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

- HK\$1.00: RMB0.83148, being the rate of the PBOC prevailing on the Latest Practicable Date;
- RMB6.4546: US\$1.00, being the rate of the PBOC prevailing on the Latest Practicable Date.

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated. If there is any inconsistency between the names of any entities or words mentioned in this English prospectus which are not in English and their English translations, the names or words in their respective original languages shall prevail.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

| Name | Address | Nationality |
|------------------------------------|--|--------------------|
| <i>Executive Directors</i> | | |
| Mr. Chou Patrick Hsiao-Po (周小波) | Cathay View 2-807 No. 1 Guantang East Road 100102 Beijing, China | German |
| Ms. Sun Jing (孫靖) | Yuanyang Ziran 8-1-301 No. 108 Ma Jia Bao Dong Lu Feng Tai District Beijing China | Chinese |
| Ms. Wei Hongjing (魏紅晶) | Room 892, Tower 2B Four Points by Sheraton Beijing Serviced Apartments 25 Yuanda Road Haidian District Beijing China | Chinese |
| Mr. Chau Kwok Keung (鄒國強) | Flat B, 9/F, Block 2 Royal Peninsula 8 Hung Lai Road Hung Hom Kowloon Hong Kong | Chinese |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| Name | Address | Nationality |
|--|--|--------------------|
| <i>Independent non-executive Directors</i> | | |
| Mr. Liu Dengqing (劉澄清) | Room 1205, 2/F Wanliu Yangchun Guanghua Jiayuan Haidian District Beijing China | Chinese |
| Mr. Wong Ka Kit (黃家傑) | 7/F Flat C Fu Bon Court 32 Fortress Hill Road North Point Hong Kong | Chinese |
| Mr. Yau Ka Chi (邱家賜) | Flat H, 15/F, Block 6 Highland Park 11 Lai Kong Street Kwai Chung New Territories Hong Kong | Canadian |

See also “Directors and Senior Management” for more information.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Macquarie Capital Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Joint Global Coordinators

Macquarie Capital Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Huatai Financial Holdings (Hong Kong)
Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

Joint Bookrunners

Macquarie Capital Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Huatai Financial Holdings (Hong Kong)
Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

UOB Kay Hian (Hong Kong) Limited
6/F, Harcourt House
39 Gloucester Road
Hong Kong

DBS Asia Capital Limited
73rd Floor, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Futu Securities International (Hong Kong)
Limited
Unit C1-2, 13/F, United Centre
No. 95 Queensway
Admiralty
Hong Kong

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Maxa Capital Limited
Unit 1908, Harbour Center
25 Harbour Road
Wanchai
Hong Kong

Joint Lead Managers

Macquarie Capital Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Huatai Financial Holdings (Hong Kong)
Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

UOB Kay Hian (Hong Kong) Limited
6/F, Harcourt House
39 Gloucester Road
Hong Kong

DBS Asia Capital Limited
73rd Floor, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Futu Securities International (Hong Kong)
Limited
Unit C1-2, 13/F, United Centre
No. 95 Queensway
Admiralty
Hong Kong

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Maxa Capital Limited
Unit 1908, Harbour Center
25 Harbour Road
Wanchai
Hong Kong

Huajin Securities (International) Limited
Suite 1101, 11/F, Champion Tower
3 Garden Road
Central
Hong Kong

Valuable Capital Limited
Room 3601, 36th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Co-Manager

uSmart Securities Limited
Unit 2606-07, 26/F
FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Legal advisors to our Company

As to Hong Kong laws:
Morgan, Lewis & Bockius
Suites 1902-09
19th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|--|---|
| | <p><i>As to PRC laws:</i> Jingtian & Gongcheng 34/F, Tower 3 China Central Place 77 Jianguo Road Chaoyang District Beijing the PRC</p> |
| | <p><i>As to Cayman Islands laws:</i> Conyers Dill & Pearman 29th Floor One Exchange Square 8 Connaught Place Central Hong Kong</p> |
| Legal advisors to the Sole Sponsor and the Underwriters | <p><i>As to Hong Kong laws:</i> Norton Rose Fulbright Hong Kong 38/F, Jardine House 1 Connaught Place Central Hong Kong</p> |
| | <p><i>As to PRC laws:</i> Commerce & Finance Law Offices 6/F NCI Tower A12 Jianguomenwai Avenue Beijing the PRC</p> |
| Auditors and reporting accountants | <p>Ernst & Young <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditor</i> 27/F, One Taikoo Place 979 King's Road Quarry Bay Hong Kong</p> |
| Industry consultant | <p>Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. 2504 Wheelock Square 1717 Nanjing West Road Shanghai 200040 China</p> |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving bank

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

Compliance advisor

Maxa Capital Limited
Unit 1908, Harbour Center
25 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

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|---|--|
| Registered office | Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands |
| Headquarter and principal place of business in the PRC | BetterLife Automobile Park No. 143 North Road West 4th Ring Haidian District Beijing the PRC |
| Principal place of business in Hong Kong | 40th Floor, Dah Sing Financial Centre No. 248 Queen's Road East Wanchai Hong Kong |
| Company's website | www.blchina.com <i>(information contained in this website does not form part of this prospectus)</i> |
| Company secretary | Mr. Chau Kwok Keung ACCA, HKICPA Flat B, 9/F, Block 2 Royal Peninsula 8 Hung Lai Road Hung Hom Kowloon Hong Kong |
| Authorized representatives | Ms. Sun Jing Yuanyang Ziran 8-1-301 No. 108 Ma Jia Bao Dong Lu Feng Tai District Beijing China Mr. Chau Kwok Keung Flat B, 9/F, Block 2 Royal Peninsula 8 Hung Lai Road Hung Hom Kowloon Hong Kong |

CORPORATE INFORMATION

| | |
|---|--|
| Audit Committee | Mr. Yau Ka Chi (<i>Chairman</i>) Mr. Liu Dengqing Mr. Wong Ka Kit |
| Remuneration Committee | Mr. Wong Ka Kit (<i>Chairman</i>) Mr. Chou Patrick Hsiao-Po Mr. Liu Dengqing |
| Nomination Committee | Mr. Chou Patrick Hsiao-Po (<i>Chairman</i>) Mr. Liu Dengqing Mr. Yau Ka Chi |
| Strategic Development Committee | Mr. Chou Patrick Hsiao-Po (<i>Chairman</i>) Mr. Wong Ka Kit Ms. Sun Jing |
| Principal banks | Bank of Beijing Co., Ltd. Guoxing Jiayuan Branch Guoxing Building No. 20 Shouti South Road Haidian District Beijing, the PRC Shanghai Pudong Development Bank Co., Ltd. Beijing Wangjing Branch No. 101 Building Wangjing Huayuan West Zone Chaoyang District Beijing, the PRC |
| Cayman Islands share registrar and transfer office | Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands |
| Hong Kong share registrar | Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong |

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The information and statistics contained in this section have been derived partly from publicly available government and official sources as well as from a market research report we commissioned from Frost & Sullivan, an Independent Third Party. We believe that the sources of such information and statistics in this section are appropriate sources and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. However, neither we nor any other party (other than Frost & Sullivan) involved in the Global Offering have carried out any independent verification or have given any representation as to the accuracy or completeness of such information and statistics set forth in this section or similar information included elsewhere in this prospectus. The information and statistics contained in this section may not be consistent with information available from other sources within or outside the PRC and Hong Kong. Accordingly, we should not place undue reliance on such information. For a discussion of risks relating to our industry, please see “Risk Factors — Risks Relating to Our Industry.”

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of, and to produce a report on, the passenger vehicle market and dealership market in the PRC. Frost & Sullivan is an independent global consulting firm founded in 1961 and offers industry research, market strategies and provides growth consulting and corporate training on a variety of industries. We agreed to pay Frost & Sullivan a fee of RMB720,000 for the preparation of the Frost & Sullivan Report, and our Directors consider that such fee reflects market rates. We have extracted certain information from the Frost & Sullivan Report in this section and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industries in which we operate.

During the preparation of the market research report, Frost & Sullivan performed both primary research which involves discussions of industry status with leading industry participants and industry experts, and secondary research which involves review of company reports, independent research reports and data from Frost & Sullivan’s own research database. The Frost & Sullivan Report contains a variety of market projections produced with the following assumptions: (i) the economy of China is likely to maintain steady growth in the next decade based on the stable economic development of China’s economy in the historical period; (ii) the social, economic and political environment in China is likely to remain stable in the forecast period, from 2020 to 2025; (iii) the relevant market drivers identified in the report are likely to drive the future growth of the industry; (iv) the COVID-19 pandemic will be under effective control in the PRC given that the local government has implemented strict quarantine and prevention measures and the economic development in the PRC will not be affected in the

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long run; and (v) Sino-U.S. trade tensions will not pose significant impact on the industry as the trade tensions have been eased after the long-awaited phase-one trade deal was entered into between the two countries on January 15, 2020.

Except as otherwise noted, all the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Our Directors confirm to the best of their knowledge, and after making reasonable inquiries, that there is no adverse change in the market information since the date of publication of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information set out in this section.

ECONOMIC GROWTH OF CHINA

Rapid Growth of China's Economy, Increasing Urbanization and Disposable Income of Urban Households

According to the National Bureau of Statistics of China, China's economy grew from approximately RMB64.4 trillion in 2014 to approximately RMB101.6 trillion in 2020, representing a CAGR of approximately 7.9% from 2014 to 2020. According to the International Monetary Fund, the Chinese economy is projected to grow at a CAGR of 8.3% from 2020 to 2025. In the meanwhile, the nominal GDP per capita in China grew from approximately RMB47,173 in 2014 to RMB72,347 in 2020, representing a CAGR of approximately 7.4%. The nominal GDP per capita in China is expected to continue to grow and reach approximately RMB106,781 in 2025, representing a CAGR of approximately 8.1% from 2020 to 2025.

As a result of the rapid economic development and the influx of migrants from rural areas to relatively developed areas, the urban population of China grew at a CAGR of 2.3% from 749.2 million in 2014 to 859.5 million in 2020, and the urbanization rate in China increased from 54.8% in 2014 to 61.2% in 2020. The urban population is expected to reach 953.7 million in 2025 and the urbanization rate in China is likely to continue to increase and reach 67.3% in 2025. The per capita annual disposable income of urban households in China grew from RMB28,844 in 2014 to RMB43,834 in 2020, representing a CAGR of 7.2% from 2014 to 2020. Based on the prediction of steady growth of nominal GDP and urbanization in China, the per capita annual disposable income of urban households is forecasted to reach RMB62,716 by the end of 2025, representing a CAGR of 7.4% from 2020 to 2025.

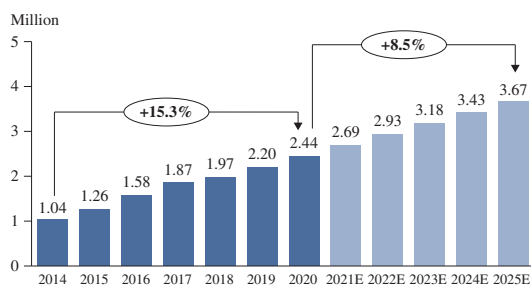
Increasing Number of High-Net-Worth Individuals

China's rapid economic growth has led to a large and growing pool of high-net-worth individuals, which refer to individuals with investable assets of at least RMB10.0 million. We operate 4S dealership stores across six provinces and municipalities in the PRC, including Beijing, Tianjin, Shandong, Sichuan, Zhejiang and Guangdong. These six provinces and municipalities were all among the top ten provincial-level regions in China in terms of the number of high-net-worth individuals in 2020, and had shown strong purchase power and demands for luxury and ultra-luxury passenger vehicles. The number of high-net-worth individuals in China increased from approximately 1.04 million in 2014 to approximately 2.44

INDUSTRY OVERVIEW

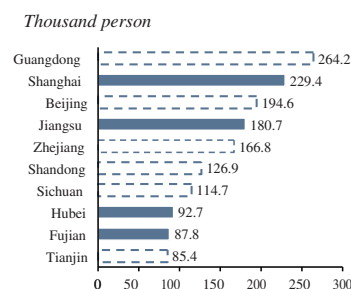
million in 2020, representing a CAGR of 15.3% from 2014 to 2020. The number of high-net-worth individuals in China is expected to continue to increase and reach approximately 3.67 million in 2025, representing a CAGR of 8.5% from 2020 to 2025. According to the Frost & Sullivan Report, the increasing number of high-net-worth individuals will also stimulate the demands and sales of passenger vehicles in China, especially those luxury and ultra-luxury passenger vehicles.

**Number of High-Net-Worth
Individuals in China, 2014–2025E**



Source: Frost & Sullivan

**Top Ten Provinces in Terms of the Number
of High-Net-Worth Individuals
in China, 2020**



Note: Bars with dots denote the provinces where we have business operations.

OVERVIEW OF PASSENGER VEHICLE MARKET IN CHINA

Pursuant to the Implementation Measures for the Administration of Automobile Brand Sales (汽車品牌銷售管理實施辦法) (the “Measures”) promulgated in February 2005, only automobile manufacturer-authorized automobile dealerships and general automobile distributors are permitted to procure automobiles directly from the automobile manufacturers. Although the Measures were released in 2005, it took years of transition period for automobile manufacturers and dealers to fully implement. It is industry-recognized that since around 2010, authorized 4S dealership stores have become the only channel in China for automobile manufacturers to distribute their products. According to the Frost & Sullivan Report, direct sales outlets established by the automobile manufacturers began to emerge in China in 2013 along with the adoption of direct-sales models of those new energy vehicle brands and manufacturers such as Tesla, NIO and Lixiang.

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The Measures for the Administration of Automobile Sales (汽車銷售管理辦法) was issued in 2017, which superseded the Measures, allowing the sale of motor vehicles to be carried out with or without authorized dealership agreements. It also stipulates that, except as agreed otherwise in the dealership agreements, automobile manufacturers are not allowed to conduct direct sales to customers in geographical areas in which authorized dealers are appointed. Although there are a few automobile manufacturers who have established their direct sales outlets, such outlets are located in the areas where there are no authorized dealership stores. Hence it is not likely that the authorized dealership model will be replaced by the direct sales model in the PRC.

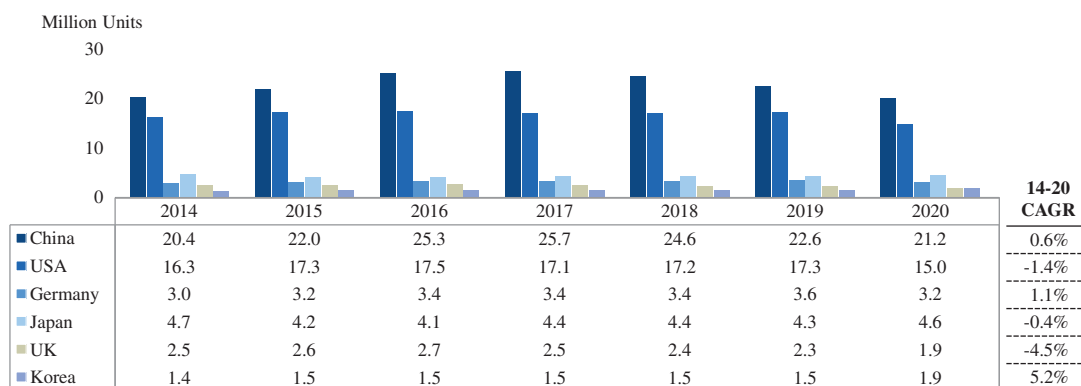
By the end of 2020, seven cities and one province in the PRC, including Shanghai, Beijing, Guangzhou, Tianjin, Hangzhou, Shenzhen, Shijiazhuang and Hainan province, have implemented restriction policies on purchases of passenger vehicles in order to alleviate urban traffic congestion. According to the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定), which was promulgated on October 29, 2020 and came into effect on January 1, 2021, and the Rules for the Implementation of the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定實施細則), which was promulgated on December 5, 2020 and came into effect on January 1, 2021, in Beijing (i) the license plate quota for new energy automobiles for units and individuals shall be allocated through queuing schemes; (ii) the license plate quota for new energy automobiles for households shall be allocated based on points assigned to local families; and (iii) the license plate quota for non-new energy automobiles shall be allocated through lottery schemes. The implementation of such policies mainly affects the regional passenger vehicle markets where the purchase restriction policies are implemented, and has little impact on the overall passenger vehicle market in the PRC given that there are limited number of cities and provinces in the PRC that have imposed limits on new automobile purchase. According to the Frost & Sullivan Report, in 2020, the sales volume of new passenger vehicles from the abovementioned seven cities and one province in China where the restriction policies on purchases of passenger vehicles have been implemented only accounted for approximately 10.0% of the total sales volume of new passenger vehicles in China.

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The Largest Passenger Vehicle Market

China's passenger vehicle market has grown rapidly in recent years, which was the largest passenger vehicle market in the world from 2014 to 2020. The sales volume of new passenger vehicles in China was approximately 21.2 million units in 2020, compared to approximately 15.0 million units in the United States, which was the second largest market in the world in terms of the sales volume during the same year. The chart below illustrates the sales volume of new passenger vehicles in major automotive markets in the world from 2014 to 2020:

Sales Volume of New Passenger Vehicles in Major Automotive Markets, 2014–2020



Source: International Organization of Motor Vehicle Manufacturers and Frost & Sullivan.

Market Segmentation

According to the Frost & Sullivan Report, the brands of passenger vehicles are divided into four segments based on, among others, the brand positioning, price range, specifications and equipment, quality and after-sales services. The segments are (i) ultra-luxury; (ii) luxury; (iii) medium-level; and (iv) entry-level brands, all of which are commonly used in the industry.

| Segment | Representative Brands | Average Price Range | Market Share in Terms of the Sales Volume of New Passenger Vehicles in 2020 (%) |
|--------------|---|------------------------------|---|
| Ultra-luxury | Including, among others, Porsche, Ferrari, Lamborghini, Maserati, Aston Martin, Bentley, Rolls-Royce and McLaren | Over RMB1.0 million | 0.5% |
| Luxury | Including, among others, Mercedes-Benz, Audi, Volvo, Jaguar-Land Rover, Lincoln, Alfa Romeo, BMW, Infiniti, Lexus, Cadillac, NIO, Tesla and Lixiang | RMB300,000 to RMB1.0 million | 16.6% |
| Medium | Including, among others, Dodge, Fiat, Ford, Buick, Chevrolet, Honda, Toyota, Mazda, Lotus, Peugeot, Nissan, Suzuki and Volkswagen | RMB100,000 to RMB300,000 | 71.4% |
| Entry | Including, among others, BYD, Chery, Dongfeng Motor, JAC Volkswagen-Sihao and Roewe | Under RMB100,000 | 11.5% |

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Luxury and ultra-luxury brands are distinguished from other classes of automobiles mainly in terms of price (above RMB300,000 for luxury and above RMB1.0 million for ultra-luxury), configuration (customized configuration in case of ultra-luxury), higher level of specifications and equipment, as well as better quality and after-sales services.

Size of the Passenger Vehicle Dealership Market in China

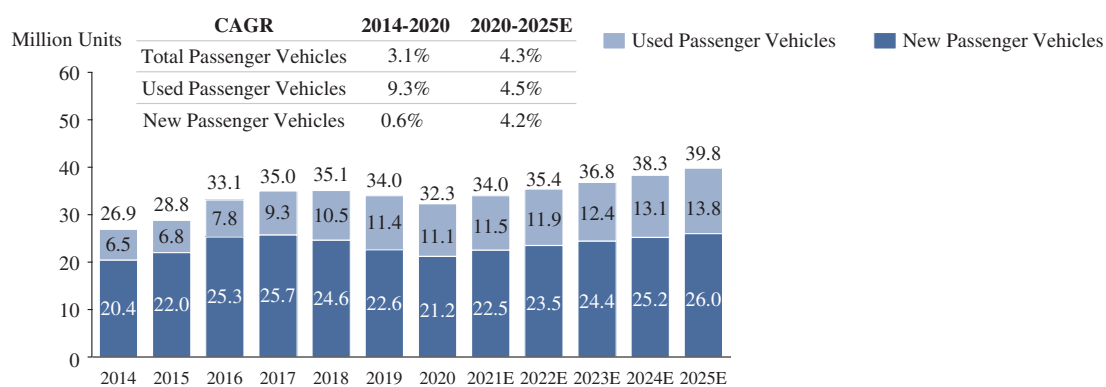
Sales Volume of Passenger Vehicles in China

Driven by the growing household expenditure and positive macro-economic environment in China, the sales volume of new passenger vehicles in China grew rapidly from 20.4 million units in 2014 to 25.7 million units in 2017. However, the sales volume of new passenger vehicles in China decreased from 24.6 million in 2018 to 21.2 million in 2020, primarily due to (i) the trade tensions between the United States and China, which resulted in a slow-down in China's economy since 2018 and an increase of tariffs on U.S.-made automobiles and spare parts; (ii) successive implementation on the restriction policies on purchases and traffic restrictions of passenger vehicles in certain cities and provinces in China; (iii) the implementation of the Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 6) (輕型汽車污染物排放限值及測量方法) (中國第六階段) in a number of provinces/municipalities in China since July 2019. The abovementioned factors made Chinese customers more conscious of their spending on passenger vehicles and caused the wait-and-see sentiment of end-consumers to some extent, thereby limiting market demand for new passenger vehicles during these years. The sales volume of new passenger vehicles is expected to gradually recover from 2021 onwards due to (i) the increasing demand for passenger vehicles in high-end market led by the consumption upgrading trend in China; (ii) the new energy vehicles expected to be launched and promoted by various passenger vehicle brands in China in the upcoming years; (iii) the PRC government's expected promotion of automobile sales after the COVID-19 pandemic as indicated and proposed at the executive meeting of the State Council in November 2020; (iv) promoting the consumption of passenger vehicles has been listed as one of the key tasks of the PRC government in 2021 as part of the efforts to stimulate domestic demand and consumption, according to the 2021 Report on the Work of the Government issued by the National People's Congress (第十三屆全國人民代表大會第四次會議) in March 2021; and (v) Sino-U.S. trade tensions are not likely to pose significant impact on sales of automobiles as the trade tensions have been eased after the long-awaited phase-one trade deal was entered into between the two countries on January 15, 2020. According to the Frost & Sullivan Report, the sales volume of new passenger vehicles is anticipated to reach 26.0 million units in 2025, representing a CAGR of 4.2% from 2020 to 2025.

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In addition, under the promotion of relevant online trading platforms and the favorable policies for financing and trading of used passenger vehicles, the sales volume of used passenger vehicles in China increased from 6.5 million units in 2014 to 11.1 million units in 2020, representing a CAGR of 9.3% from 2014 to 2020. The used passenger vehicle market in China is still under development as most people prefer to purchase new vehicles rather than used ones. However, with the change of people’s consumption concept, the sales volume of used passenger vehicles in China is expected to reach 13.8 million units in 2025, representing a CAGR of 4.5% from 2020 to 2025. The chart below illustrates the sales volume of both new and used passenger vehicles from 2014 to 2020 and during the forecast period:

Breakdown of the Sales Volume of New and Used Passenger Vehicles in China, 2014–2025E



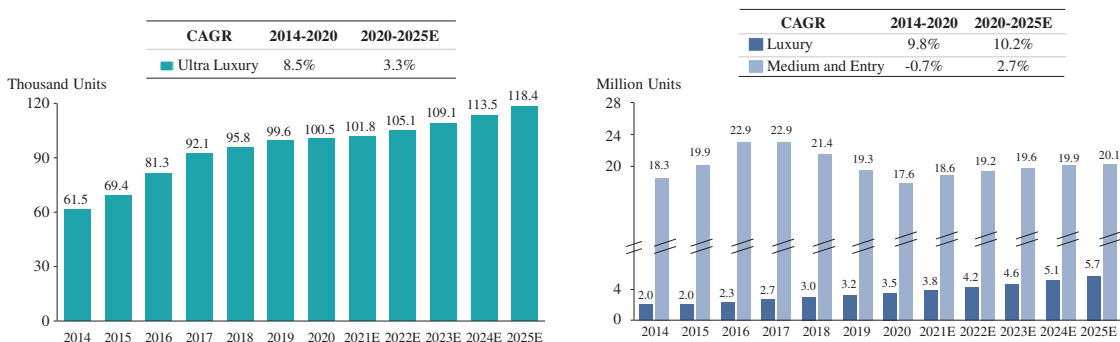
Source: CAAM, CPCA, CADA and Frost & Sullivan

INDUSTRY OVERVIEW

Sales Volume of New Passenger Vehicles by Brand Segment in China

Despite the fact that the overall sales volume of new passenger vehicles in the PRC declined slightly from 2017 to 2020, the sales volume of luxury and ultra-luxury passenger vehicles experienced rapid growth in the past few years. In particular, the sales volume of ultra-luxury passenger vehicles increased from 61,500 units in 2014 to 100,500 units in 2020, representing a CAGR of 8.5% from 2014 to 2020, and is expected to continue to grow and reach 118,400 units in 2025, representing a CAGR of 3.3% from 2020 to 2025, according to the Frost & Sullivan Report. In addition, the sales volume of luxury passenger vehicles grew rapidly from 2.0 million units in 2014 to 3.5 million units in 2020, representing a CAGR of 9.8% from 2014 to 2020, and is expected to reach 5.7 million units in 2025, representing a CAGR of 10.2% from 2020 to 2025, according to the Frost & Sullivan Report. The chart below illustrates the breakdown of sales volume of new passenger vehicles by segment in China from 2014 to 2020 and during the forecast period:

Breakdown of Sales Volume of New Passenger Vehicles by Brand Segment in China, 2014–2025E



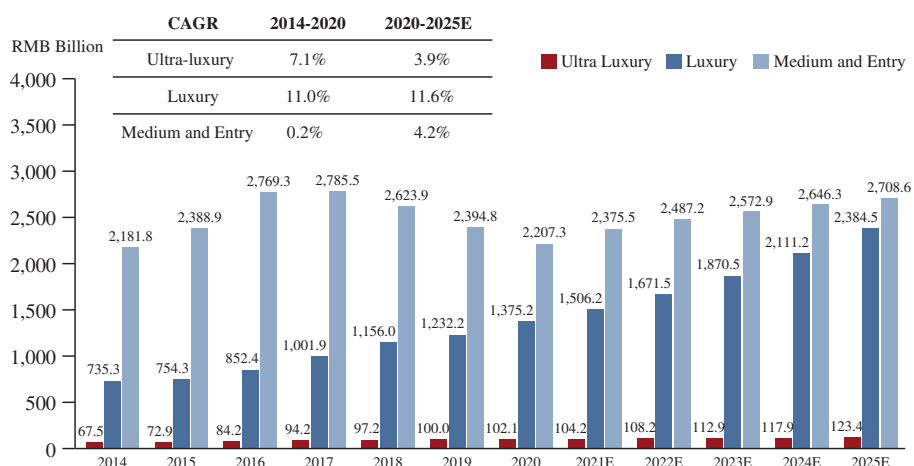
Source: CAAM, CPCA, CADA and Frost & Sullivan

INDUSTRY OVERVIEW

Market Size of New Passenger Vehicles by Brand Segments in China

Revenue generated by sales of new passenger vehicles in China declined from RMB3,877.2 billion in 2018 to RMB3,684.5 billion in 2020 after a steady increase between 2014 and 2017. The decrease was primarily attributable to the decrease in the sales volume of medium-level and entry-level passenger vehicles. However, revenue generated from sales of ultra-luxury passenger vehicles in China grew rapidly at a CAGR of 7.1% from RMB67.5 billion in 2014 to RMB102.1 billion in 2020 and is expected to continue to grow at a CAGR of 3.9% from 2020 to 2025, primarily because (i) the population of high net-worth individuals in China, which is the main consumers of ultra-luxury passenger vehicles, is expected to grow rapidly at a CAGR of 8.5% from 2020 to 2025; and (ii) the COVID-19 pandemic has been largely contained in the PRC and thus, China's economy is expected to recover and grow in the coming years, which will drive the demand for and consumptions of passenger vehicles, including the ultra-luxury passenger vehicles. With respect to the luxury passenger vehicle market, revenue generated from sales of luxury passenger vehicles in China increased from RMB735.3 billion in 2014 to RMB1,375.2 billion in 2020, representing a CAGR of 11.0%. It is expected to grow and reach RMB2,384.5 billion in 2025, representing a CAGR of 11.6% from 2020 to 2025. The chart below illustrates the breakdown of revenue from the sale of new passenger vehicles in China by brand segment from 2014 to 2020 and during the forecast period:

Breakdown of Revenue from New Passenger Sales by Brand Segment in China, 2014-2025E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

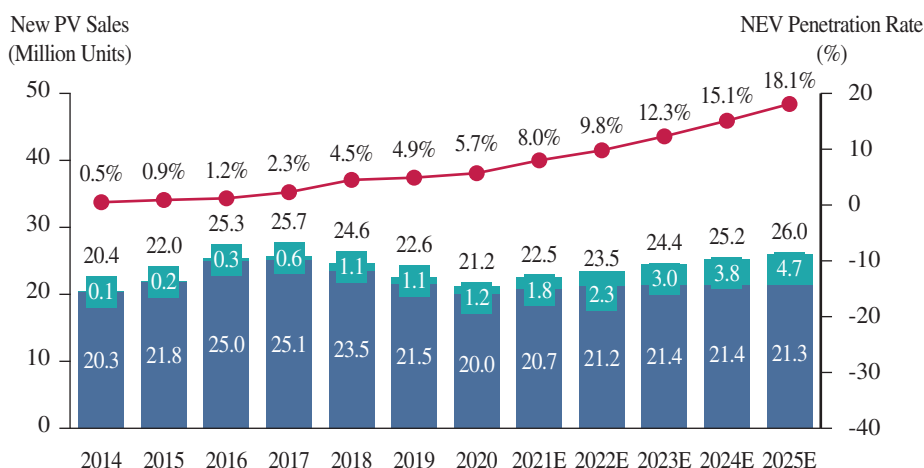
Sales Volume of New Energy Vehicles in China

According to the Frost & Sullivan Report, the new energy vehicle market has experienced rapid growth in the past few years as a result of the continuous technology development and continuous launches of new models and products by new energy vehicle manufacturers. The sales volume of new energy vehicles increased from approximately 0.1 million units in 2014 to approximately 1.2 million units in 2020, representing a CAGR of 51.3%. However, as the new energy vehicle market is still an emerging market in China, the penetration rate of new energy vehicles (representing the proportion of the sales volume of new energy vehicles in the total sales volume of passenger vehicles in China) was 5.7% by the end of 2020. From 2014 to 2020, medium and entry segment of new energy vehicles increased from approximately 66 thousand units to 1,047 thousand units while luxury and ultra-luxury segment increased from less than 10 thousand units to approximately 200 thousand units. The chart below illustrates a breakdown of the sales volume of new passenger vehicles by new energy vehicles and pure petroleum vehicles from 2014 to 2020 and during the forecast period:

Breakdown of the Sales Volume of New Passenger Vehicles in China by New Energy Vehicles and Non-new Energy Vehicles, 2014-2025E

| | CAGR | 2014-2020 | 2020-2025E |
|--------------------------|------|-----------|------------|
| Total Passenger Vehicles | | 0.6% | 4.2% |
| NEVs | | 51.3% | 31.4% |
| Non-NEVs | | -0.2% | 1.3% |

● NEV Penetration Rate
■ NEV
■ Non-NEV



Source: CAAM, CPCA, CADA and Frost & Sullivan

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According to the Frost & Sullivan Report, the new energy vehicle market in China is expected to grow rapidly in the next few years as an increasing number of traditional petroleum vehicle manufacturers have started to implement strategies to capture the opportunities in the new energy vehicle market. For instance, Audi aims to launch and make available for sale of 30 electrified models worldwide by 2025, Bentley plans to launch its first new energy vehicle model in 2025 and go fully electric by 2030, and Mercedes-Benz anticipates that the sales volume of new energy vehicle models will represent more than 50.0% of its total sales volume of passenger vehicles by 2030. According to the Frost & Sullivan Report, the sales volume of new energy vehicles in China is forecasted to increase at a CAGR of 31.4% from 2020 to 2025 and will reach approximately 4.7 million units in 2025. From 2020 to 2025, medium and entry segment of new energy vehicles is expected to increase from approximately 1.0 million units to 3.8 million units while luxury and ultra-luxury segment is expected to increase from 0.2 million units to approximately 0.9 million units.

The table below illustrates the breakdown of sales volume of the new energy vehicles in the major regions where our Group operates:

Sales volume of the new energy vehicles in the major regions where our Group operates

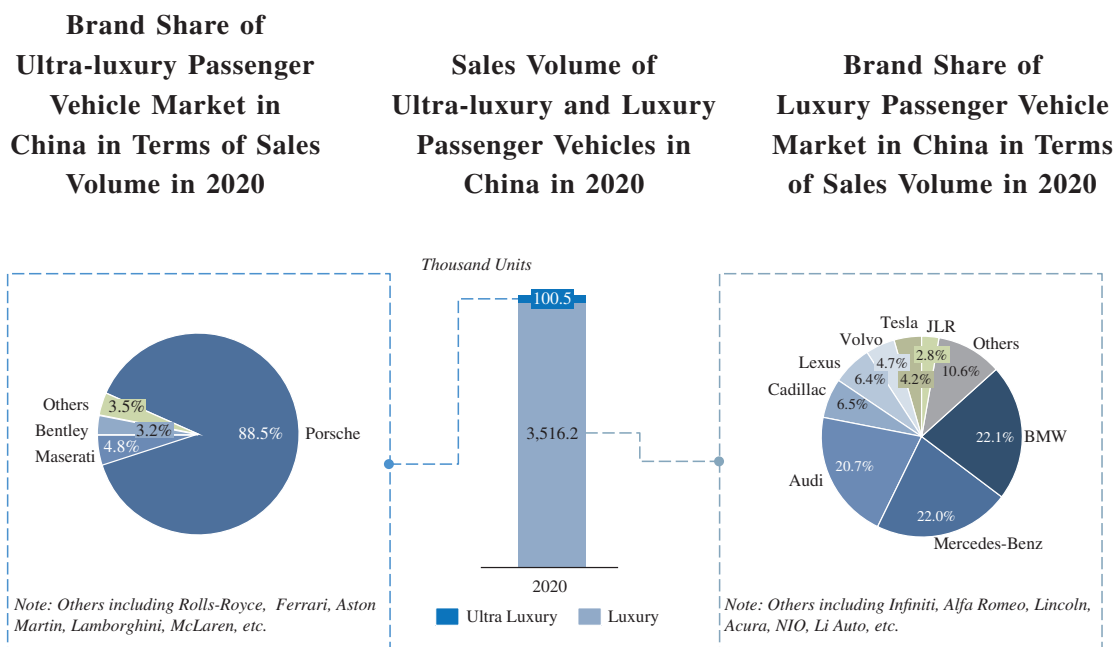
| | Unit | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------|----------|------|------|------|------|------|------|-------|
| Beijing | Thousand | 6.2 | 12.7 | 62.6 | 56.0 | 62.5 | 86.0 | 109.4 |
| Tianjin | Thousand | 0.4 | 0.9 | 20.2 | 31.6 | 33.5 | 31.0 | 43.7 |
| Qingdao | Thousand | 0.2 | 5.1 | 3.7 | 15.3 | 14.3 | 18.0 | 15.1 |
| Hangzhou | Thousand | 7.3 | 3.8 | 6.7 | 40.8 | 56.4 | 41.0 | 54.7 |
| Foshan | Thousand | 0.1 | 0.3 | 1.2 | 1.5 | 3.6 | 5.8 | 7.5 |
| Chengdu | Thousand | 1.2 | 0.9 | 2.1 | 11.0 | 14.6 | 25.7 | 31.5 |

Due to the promotion of the new energy vehicles in China, sales volume of the new energy vehicles in Beijing, Tianjin, Qingdao, Hangzhou, Foshan and Chengdu experienced a rapid growth from 2014 to 2020. Looking forward, in view of the development of the sales of the new energy vehicles in China, sales volume of the new energy vehicles in these cities are also expected to experience a further growth in the future.

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Market Share by Brand of Ultra-luxury and Luxury Passenger Vehicles in China

In the ultra-luxury passenger vehicle market, Porsche and Maserati were the top two best-selling brands in terms of the sales volume of new passenger vehicles in 2020, which together accounted for approximately 93.3% of the total sales volume of the market. BMW, Mercedes-Benz and Audi were the top three brands in the luxury passenger vehicles market in China as measured by the sales volume of new passenger vehicles in 2020, which together accounted for approximately 64.8% of the total sales volume of new passenger vehicles in the luxury passenger vehicle market. The charts below illustrate the market share by brand of both ultra-luxury and luxury passenger vehicle markets in China in terms of sales volumes in 2020:



Source: CAAM, China Custom and Frost & Sullivan

Incentive Rebates from Automobile Manufacturers

Incentive rebates refer to the incentives of cash or equivalent provided by automobile manufacturers to authorized dealerships to reward dealers that meet certain conditions to stimulate sales. Incentive rebates are generally used by automobile manufacturers as a tool to increase market shares and achieve sales targets. This is a common practice in the PRC passenger vehicle dealership market. The incentive schemes usually vary among different brands of automobile manufacturers. They are usually determined based on factors including the purchase and sales volumes of new vehicles of authorized dealerships, customer satisfaction and other metrics set by automobile manufacturers based on their policies.

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According to the Frost & Sullivan Report, an automobile manufacturer generally applies the same incentive policy to its authorized dealership stores across the country or particular regions. Authorized dealership stores' reliance on incentive rebates is largely related to the automobile manufacturers' sales strategies and market condition, including the growth and development of the passenger vehicle market in China. Therefore, it is not uncommon for authorized dealers to receive a significant amount of incentive rebates during the time when the automobile manufacturers aim to boost their sales and/or increase their market shares when the market condition is unfavorable. Further, since it is market practice for the automobile manufacturers to determine their own rebate policies and practices, the level of reliance of an authorized dealer on incentive rebates is directly related to its brand portfolio during the relevant period of time.

Market Drivers of Passenger Vehicle Dealership Market in China

Increasing Purchasing Power of PRC Residents – The per capita annual disposable income of urban households increased with a CAGR of 7.2% from 2014 to 2020 and the number of high-net-worth individuals in China increased from approximately 1.0 million in 2014 to approximately 2.4 million in 2020, representing a CAGR of 15.3% from 2014 to 2020. The increasing purchasing power of PRC residents is anticipated to further stimulate the consumption of passenger vehicles, especially the demand for luxury and ultra-luxury passenger vehicles, thereby driving the growth of the passenger vehicle dealership market in China.

Rapid Growth of After-sales Services – The after-sales services provided by 4S dealership stores experienced significant growth in the past few years due to the increasing customer acceptance of 4S professional services and the increasing passenger vehicle population. Rapid growth of after-sales services is expected to further drive the development of passenger vehicle dealership market in China.

Rapid Development of New Energy Vehicle Market in China – The new energy vehicle market witnessed significant growth during the past few years due to the nationwide promotion conducted by the PRC government and maturity of the relevant technologies for new energy vehicles. The sales volume of new energy vehicles in China has increased significantly from 47.2 thousand units in 2014 to 1,245.7 thousand units in 2020, representing a CAGR of 72.5%. Numerous foreign and PRC domestic vehicle brands have launched their new energy vehicle products in China. The rapid development of this market has also stimulated the increase in sales volume of new energy vehicles and spurred the growth of the passenger vehicle dealership market.

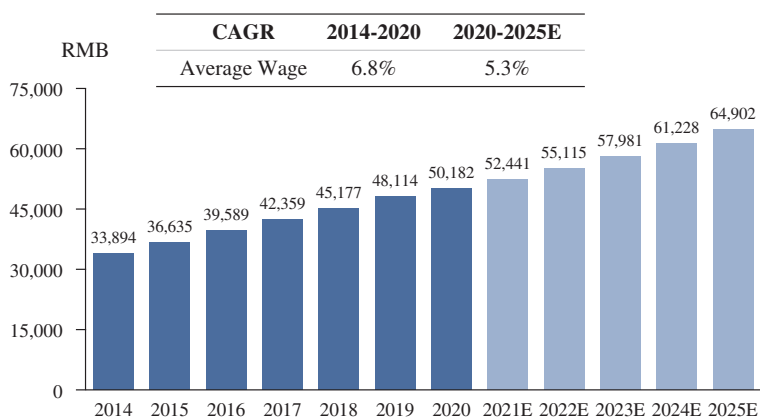
Increasing Acceptance of Vehicle Purchase by Loans or Financing – Loans or vehicle financing provide an easier way for customers to purchase a vehicle. The percentage of new passenger vehicles sold with loans or financing increased from approximately 30.0% in 2014 to approximately 45.0% in 2020. With the younger generation becoming the major consumer group of passenger vehicles, the increasing acceptance of vehicle purchase by loans or financing will continue to stimulate the development of passenger vehicle dealerships.

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Cost Analysis

According to the National Bureau of Statistics, the average wage of employees in urban areas of the wholesale and retail industry grew from RMB33,894 in 2014 to RMB50,182 in 2020, representing a CAGR of 6.8% from 2014 to 2020. The increase was primarily due to the positive macro-economic environment in China over the past few years. It is expected to continue to grow and reach approximately RMB64,902 by the end of 2025, representing a CAGR of 5.3% from 2020 to 2025. The chart below illustrates the average wage of employees in urban areas of wholesale and retail industry in China from 2014 to 2020 and during the forecast period:

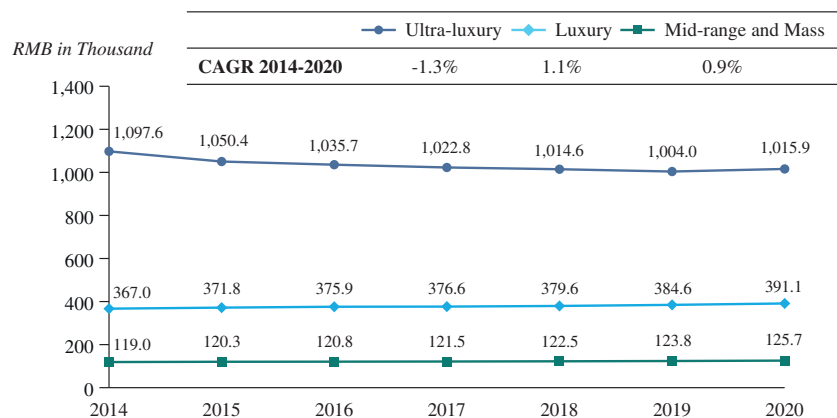
Average Wage of Employees in Urban Areas of Wholesale and Retail Industry in China, 2014-2025E



Source: National Bureau of Statistics of China and Frost & Sullivan

The chart below illustrates the average retail price of passenger vehicles by market segment in China from 2014 to 2020:

Average Retail Price of Passenger Vehicles by Market Segment in China, 2014-2020



Source: Frost & Sullivan

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COMPETITIVE LANDSCAPE OF AUTO DEALERSHIP MARKET IN CHINA

According to the Frost & Sullivan Report, in 2020 there were approximately 30,000 passenger vehicle dealers in China, among which approximately 10,000 were luxury and ultra-luxury passenger vehicle dealers. These dealers include both authorized dealers and secondary dealers who are agents of authorized dealers. Revenue generated by the top five passenger vehicle dealership groups in 2020 accounted for approximately 12.2% of the total revenue generated by the market for the same year. The market share of our Group was approximately 0.2% in terms of revenue generated from sales of new automobiles in the passenger vehicle dealership market in 2020. In addition, revenue generated by the top five luxury and ultra-luxury passenger vehicle dealership groups in 2020 accounted for approximately 24.2% of the total revenue generated by the market for the same year. The market share of our Group in terms of revenue generated from sales of new automobiles in the luxury and ultra-luxury passenger vehicle dealership market in 2020 was approximately 0.5%.

According to the Frost & Sullivan Report, the dealership market of ultra-luxury passenger vehicles in China is fragmented. Revenue generated from sales of new ultra-luxury passenger vehicles of the top ten market players accounted for approximately 45.6% of the total market in 2020. Revenue generated by sales of ultra-luxury passenger vehicles in 2020 represented approximately 2.9% of the total revenue generated by the whole passenger vehicle sales market in China for the same year. We generated revenue of approximately RMB4.1 billion in 2020 from the sales of new ultra-luxury passenger vehicles, accounting for approximately 4.0% of the total revenue generated by the market. We ranked sixth in terms of revenue generated from the sale of new ultra-luxury passenger vehicles in 2020 among all market players in the ultra-luxury passenger vehicle dealership market in China. We ranked first in terms of average single store revenue for the year ended December 31, 2020 compared with the top ten corporate groups principally engaged in the ultra-luxury brand 4S dealership store business in China, according to the Frost & Sullivan Report. The table below sets forth the top ten players in the ultra-luxury passenger vehicle dealership market in China in terms of revenue generated for 2020.

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| Ranking | Market Participant | Revenue <i>(Billion in RMB)</i> | Market Share <i>(%)</i> | Average Single Store Revenue <i>(Million in RMB)</i> | Background and Principal Business of the Market Participant |
|----------|--------------------|------------------------------------|----------------------------|---|--|
| 1 | Company A | 6.2 | 6.1 | ~300 | A listed company on the Main Board of the Hong Kong Stock Exchange. The company was founded in 1992 and mainly engaged in automobile dealership services in China. |
| 2 | Company B | 6.0 | 5.9 | ~350 | A private company headquartered in Austria. The company was founded in 1947 and mainly engaged in automobile dealership services in China. |
| 3 | Company C | 5.8 | 5.7 | ~350 | A Fujian-based company, which is a subsidiary of a company listed on the Shanghai Stock Exchange. The company was founded in 2001 and mainly engaged in automobile dealership services in China. |
| 4 | Company D | 5.6 | 5.5 | ~400 | A private company headquartered in Shanghai. The company was founded in 2006 and mainly engaged in automobile dealership services in China. |
| 5 | Company E | 5.2 | 5.1 | ~200 | A company located in Shanghai, which is listed on the Shanghai Stock Exchange. The company was founded in 2006 and mainly engaged in automobile dealership services in China. |
| 6 | Our Group | 4.1 | 4.0 | ~700 | An automobile dealership service provider which operates six dealership stores for ultra-luxury brands in China. |
| 7 | Company F | 3.9 | 3.8 | ~200 | A listed company on the Main Board of the Hong Kong Stock Exchange. The company was founded in 2005 and mainly engaged in sales of luxury and ultra-luxury automobiles. |

INDUSTRY OVERVIEW

| Ranking | Market Participant | Revenue <i>(Billion in RMB)</i> | Market Share <i>(%)</i> | Average Single Store Revenue <i>(Million in RMB)</i> | Background and Principal Business of the Market Participant |
|---------------|--------------------|------------------------------------|----------------------------|---|--|
| 8 | Company G | 3.6 | 3.5 | ~500 | A listed company on the Main Board of the Hong Kong Stock Exchange. The company was founded in 2007 and mainly engaged in automobile dealership services in China. |
| 9 | Company H | 3.5 | 3.4 | ~500 | A private group headquartered in Hong Kong. The group was founded in 1895 and started its automobile dealership business since 1955 in Hong Kong. Its business covers a wide range of areas, including but not limited to, automobile dealership and consumer goods. |
| 10 | Company I | 2.7 | 2.6 | ~450 | A listed company on the Main Board of the Hong Kong Stock Exchange. The company was founded in 1997 and mainly engaged in sales of luxury goods, including ultra-luxury automobiles. |
| Top 10 | | 46.6 | 45.6 | | |
| Others | | 55.5 | 54.4 | | |
| Total | | 102.1 | 100.0 | | |

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In addition, we ranked second in terms of revenue generated from the sale of new ultra-luxury passenger vehicles in 2020 among all market players in the ultra-luxury passenger vehicle dealership market in the Beijing-Tianjin-Hebei area, according to the Frost & Sullivan Report. We ranked first in terms of revenue generated from the sales of new ultra-luxury passenger vehicles in 2020 among all market players in the ultra-luxury passenger vehicle dealership market in Chengdu, according to the Frost & Sullivan Report.

According to the Frost & Sullivan Report, the passenger vehicle dealership market in the Beijing-Tianjin-Hebei area was relatively fragmented with the top five passenger vehicle dealership groups in aggregate accounting for approximately 16.5% of the total market share in terms of revenue generated from the sale of new automobiles. The total revenue generated from the sale of passenger vehicles in the Beijing-Tianjin-Hebei area was approximately RMB285.2 billion for 2020. We had a market share of approximately 1.7% in the Beijing-Tianjin-Hebei area as measured by revenue generated from the sale of automobiles in 2020.

Entry Barriers of Passenger Vehicle Dealership Market in China

According to the Frost & Sullivan Report, the passenger vehicle dealership market in China contains relatively high entry barriers as set forth below:

Initial set-up capital. A large amount of initial and operating investment is needed in the dealership market of passenger vehicles. It is crucial for new entrants to have sufficient capital to purchase new vehicles, establish, lease and decorate the 4S dealership stores, as well as hire employees.

Relationships with automobile manufacturers. The automobile dealers can only sell vehicles upon obtaining the authorizations from the manufacturers. Existing market players have already established stable relationships with automobile manufacturers. According to the Measures for the Administration of Automobiles Sales (汽車銷售管理辦法) issued by the Ministry of Commerce in 2017, the term of dealership authorization should not be shorter than three years. This policy has made the relationships between manufacturers and the existing automobile dealers stable and made it harder for new entrants to gain new authorizations from the automobile manufacturers.

Well-established sales network. The leading automobile dealership groups have established extensive sales network in China or in a specific region. The well-established networks have helped the automobile dealers gain high brand awareness and recognition among consumers. It is hard for new entrants to compete with those leading automobile dealership groups, which have well-established sales network and brand recognition in this market.

Industry know-how. Companies who have achieved success in the industry generally have excellent management systems and deep industry know-how. The industry know-how that they accumulated during the process of operations have helped the existing market players follow the market trends more easily than new entrants.

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OVERVIEW OF PASSENGER VEHICLE AFTER-SALES MARKET IN CHINA

The passenger vehicle after-sales market generally refers to the products and services provided to customers after the sale of the vehicles, which is considered as the secondary market of the automobile industry. Typical services include repair and maintenance, sale and installation of spare parts and accessories, financing services for the purchase of new passenger vehicles and vehicle insurance. The after-sales market in the PRC is a tailor-made business and highly depends on the overall performance of the passenger vehicle industry across the country.

On the other hand, dealers in the passenger vehicle after-sales market typically maintain a well-established relationship with original equipment manufacturers as they provide the fundamental original parts and accessories with proprietary trademarks for after-sales services. The authorized dealers may resell original parts and accessories to non-authorized repair and maintenance service operators and end-users for replacement and repair purposes.

Market Size of Passenger Vehicle After-sales Market in China

The market size of passenger vehicle after-sales services market in terms of revenue grew from RMB1,115.9 billion in 2014 to RMB1,982.0 billion in 2020, representing a CAGR of 10.0% from 2014 to 2020. With the rising average service life cycle of passenger vehicles and the increasing demand for after-sales services, revenue generated from the passenger vehicle after-sales market in China is expected to grow at a CAGR of 7.2% from 2020 to 2025 and reach RMB2,809.6 billion by 2025.

In particular, revenue generated from passenger vehicle insurance services represented the largest portion of revenue from the passenger vehicle after-sales market in China, which grew from RMB683.9 billion in 2014 to RMB1,064.1 billion in 2020. It is expected that the passenger vehicle insurance market will continue to grow in the next few years and reach RMB1,353.0 billion in 2025, according to the Frost & Sullivan Report.

The passenger vehicle after-sales market in China is fragmented with different types of market players. Major types of market players include, among others, passenger vehicle dealership groups, spare parts distributors, spare parts retailers, repair workshop chains, independent repair shops and vehicle insurance companies. Our revenue generated from after-sales services was RMB1,070.7 million for the year ended December 31, 2020, representing approximately 0.1% of market share in the passenger vehicle after-sales market in China.

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Market Drivers and Trends of Passenger Vehicle After-sales Market in China

Large passenger vehicle population. The passenger vehicle population in China increased at a CAGR of 10.0% from 2014 to 2020 and reached 230.6 million in 2020. In addition, the average age of passenger vehicles in China was approximately 4.9 years in 2020, which is much shorter than the passenger vehicles in developed markets in the world, such as the U.S. and Japan, in which the average age of passenger vehicles was over 10 and 8 years, respectively. The larger passenger vehicle population and shorter average age of passenger vehicles in China have indicated a longer life cycle of passenger vehicles and therefore stimulated further demand for after-sales services.

Strong policy support for the development of automobile after-sales market. The PRC government has issued a series of policies to regulate and promote the development of automobile after-sales market in recent years, such as Measures for the Implementation of Disclosure of Automobile Maintenance Technical Information (汽車維修技術信息公開實施管理辦法) in 2015, Guidelines of the Anti-Monopoly Committee of the State Council on Anti-monopoly in Automobile Industry (國務院反壟斷委員會關於汽車業的反壟斷指南) in 2019, Technical Standards of New Energy Vehicle Maintenance (新能源汽車維護技術標準) in 2018 and the new version of Regulations on the Administration of Motor Vehicle Maintenance (機動車維修管理規定) in 2019. These policies and standards further enhance the industry standard and create a level playing field for the automobile after-sales market and thus drive the sustainable development of the market.

Digitization of channels and interfaces. The influence of digital channels on customers' research and purchase processes in China's automobile after-sales market is likely to increase. Customers are inclined to turn to online communities and reviews, among other digital platforms, as a way to help them make informed decisions for purchasing. Multiple platforms for online parts sales and online-to-offline maintenance services have come into play already. Suppliers, original equipment manufacturers, distributors, and repair workshop chains are estimated to continue to increase their online participation and launch new platforms.

KEY TRENDS OF PASSENGER VEHICLES AND PASSENGER VEHICLE DEALERSHIP MARKET

Information-oriented management is the key trend for passenger vehicle dealers in China to conduct administrative management and formulate strategic sales plans. With the development of technology and the application of big data, more unstructured operating data and information collected by automobile dealers will be used for data analysis, the results of which will enable the automobile dealers to track consumer's preference. Moreover, operating data in connection with inventory and after-sales services can be utilized to establish internal online management platforms for after-sales services and procurement, which will effectively connect automobile dealers' after-sales business with inventory management of relevant accessories and automobile-related products.

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In light of the fierce competition in the sale of passenger vehicles in China, it is a key trend of the passenger vehicle dealership market that the dealers will generate more revenue from after-sales services as these services usually have a higher profit margin as compared with the sale of new passenger vehicles. Passenger vehicle dealers are likely to put more resources to improve the service quality of high value-added after-sales services, including sales of automobile accessories, repair and maintenance services, to enhance customer experience.

Further penetration of online sales channel for passenger vehicle sales will be another key trend. It is expected that online sales is likely to become one of the major channels for passenger vehicle dealers to obtain sales orders in the future. In addition, passenger vehicle dealers are likely to gain more profits from large online automobile supermarkets or sales platforms.

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REGULATIONS RELATING TO THE PRC AUTOMOBILE INDUSTRY

On May 21, 2004, the NDRC promulgated the Policy on Development of Automotive Industry (汽車產業發展政策) (the “Policy”), which became effective on the same day, and was further amended jointly by the NDRC and Ministry of Industry and Information Technology (the “MIIT”) on August 15, 2009. The Policy contains provisions relating to the PRC automobile industry’s technology policies, structural adjustments, market access administration, trademarks, product development, spare parts sales and other relevant subindustries, distribution networks, investment administration, import administration, and automobile consumption.

On December 22, 2011, MOFCOM promulgated the Guidance Opinion on Promoting the Development of Automobile Circulation Industry under Twelfth Five-Year Plan (關於促進汽車流通業“十二五”發展的指導意見) (the “Guidance Opinion”), which sets forth the overall objectives and major tasks for the automobile circulation industry. The Guidance Opinion encourages, the nurturing of large-scale new vehicle and used vehicle dealers, and foreign investment in the automobile distribution network in middle and western China.

On January 22, 2013, twelve central government agencies, including the MIIT, NDRC, MOFCOM and CSRC, jointly promulgated the Guidance Opinions on Further Promoting the Acquisitions and Restructuring of Enterprises in the Key Industries (關於加快推進重點行業企業兼併重組的指導意見), which set forth guidelines for nine key industries, including the automobile sector, encouraging domestic and outbound acquisitions and restructuring.

On April 6, 2017, the MIIT, NDRC and Ministry of Science and Technology (the “MST”) jointly promulgated the Medium and Long Term Development Planning of Automotive Industry (汽車產業中長期發展規劃), which is a general and macro regulatory guidance setting forth, the guiding ideology, cardinal principles, objectives, major tasks, supporting measures for the development of automotive industry.

REGULATIONS RELATING TO SALES OF NEW AUTOMOBILES

The sale of new automobiles is subject to the Measures for the Administration of Automobile Sales (汽車銷售管理辦法) (the “Automobile Sales Measures”), which was promulgated by MOFCOM on April 5, 2017, and came into effect on July 1, 2017. The Automobile Sales Measures allows sales of motor vehicles to be carried out with or without authorized dealership agreements. In addition, it allows the separation of provision of sales of motor vehicles and after sales services by stipulating that automobile manufacturers shall not request dealers to possess both sales and after-sales functions. Dealers that sell (a) motor vehicles whose sales are not authorized by automobile manufacturers or (b) imported motor vehicles whose sales are not authorized by overseas auto manufacturers, shall issue reminders and explanations to consumers in writing, and inform consumers of the parties bearing relevant responsibilities for consumers in writing. A dealer that is not authorized by an automobile manufacturer or that has its authorization terminated may not engage in business activities in the name of sales of motor vehicles authorized by the automobile manufacturers. Automobile

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manufacturers may request dealers to set up standalone showrooms for its products in order to maintain the brand image of such automobile manufacturers but the automobile manufacturers shall not restrict the automobile dealers to act as dealers of other brands. Where an automobile manufacturer intends to sell motor vehicles by granting authorization to a dealer, the period of authorization (excluding the store construction period) shall generally not be shorter than three years on each occasion, provided that the period of first-time authorization shall generally not be shorter than five years. Upon reaching consensus after consultation, both parties may terminate their authorization contract ahead of schedule. Unless otherwise agreed under contracts by both parties, an automobile manufacturer shall not sell motor vehicles directly to consumers within the areas where a dealer is authorized to sell the automobile manufacturer's motor vehicles. Dealers shall perform record-filing of the basic information through the national automobile circulation information management system of the competent commerce department of the State Council within 90 days of the date of receipt of business licenses. Where there is any change to the information concerned, its update shall be made within 30 days of the date of the change.

Regulations Relating to Adjusting and Controlling the Quantity of Vehicles

Among the cities where we have business operations, relevant regulations restricting automobile purchase have been implemented in Beijing, Tianjin, and Hangzhou. In these three cities, applicants for license plates shall register with the quota allocation management offices. The applicant that meets requirements can receive a valid code, with which the applicant can participate in license plate quota lottery or bidding process.

In Beijing, according to the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定), which was promulgated on October 29, 2020 and took effect on January 1, 2021, and the Rules for the Implementation of the Interim Regulations of Beijing on Adjusting and Controlling the Quantity of Passenger Vehicles (北京市小客車數量調控暫行規定實施細則), which was promulgated on December 7, 2020 and took effect on January 1, 2021, the license plate quota for new energy automobiles for units and individuals shall be allocated through queuing schemes, the license plate quota for new energy automobiles for households shall be allocated based on points assigned to local families, and the license plate quota for non-new energy automobiles shall be allocated through lottery schemes. According to the Notice on the Quantity and Allocation of Small Passenger Vehicles for 2021 (關於2021年小客車指標總量和配置比例的通告) issued by the Beijing Office on Quantity Control of Small Passenger Vehicles on January 4, 2021, the license plate quota for small passenger vehicles in Beijing is 100,000 for the year of 2021, of which 40,000 is for non-new energy vehicles and 60,000 is for new energy vehicles. The quota granted in 2021 is identical to that in 2018, 2019 and 2020.

In Tianjin, according to the Measures on Adjusting and Controlling the Total Quantity of Passenger Vehicles in Tianjin (天津市小客車總量調控管理辦法), which was promulgated on December 27, 2019 and took effect on January 1, 2020, the incremental license plate quota is allocated through lottery schemes for new energy automobiles, and through lottery and bidding for ordinary automobiles in Tianjin. The incremental license plate quota has an allocation cycle

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of 12 months. The quota for each cycle is 100,000, which is allocated on a monthly basis and does not allow across-cycle allocation. Within each cycle, the incremental license plate quota for new energy automobiles is 10,000 to be allocated through lottery schemes. The incremental license plate quota for ordinary automobiles is 90,000, among which 50,000 is allocated through lottery schemes and 40,000 is allocated through bidding. According to the Monthly Notice on the Allocation of Incremental Indicators for Tianjin Small Passenger Vehicles (關於天津市小客車增量指標配置數量的通告) issued by the Tianjin Office on Quantity Control of Small Passenger Vehicles, the total number of license plate quota for small passenger vehicles in Tianjin is 49,064 for the first five months of 2021, 150,131 for the year of 2020, 125,295 for the year of 2019 and 125,117 for the year of 2018.

In Hangzhou, according to the Regulations of Adjusting and Controlling the Total Quantity of Passenger Vehicles in Hangzhou (杭州市小客車總量調控管理規定), which was promulgated and has come into effect since January 6, 2017, the incremental license plate quota is allocated through lottery and bidding schemes in Hangzhou. The allocation cycle for the quota is 12 months. The quota for each cycle is 80,000, among which 80% is allocated through lottery schemes and the rest 20% is allocated through bidding. According to the Monthly Notice on the Allocation of Incremental Indicators for Hangzhou Small Passenger vehicles (關於杭州市小客車增量指標配置數量的公告) issued by the Hangzhou Office on Quantity Control of Small Passenger Vehicles, the total number of license plate quota for small passenger vehicles in Hangzhou is 33,967 for the first five months of 2021, 83,764 for the year of 2020, 83,009 for the year of 2019 and 81,599 for the year of 2018.

REGULATIONS RELATING TO MAINTENANCE AND REPAIR SERVICES OF MOTOR VEHICLES

According to the Regulations on the Administration of Automobile Maintenance and Repair (機動車維修管理規定), which was promulgated by the Ministry of Transport on June 24, 2005, became effective on August 1, 2005, and was further amended on August 8, 2015, April 19, 2016 and June 21, 2019, an operator of automobile repair and maintenance services shall have suitable facilities, equipment and technical personnel to operate repair and maintenance of motor vehicles business. In addition, an operator shall implement quality management systems and safety procedures, provide training to its technical personnel, maintain proper repair and maintenance records and archives, and ensure that there are sufficient safeguards for environmental protection.

According to the Regulation of the People's Republic of China on Road Transport (中華人民共和國道路運輸條例), promulgated by the State Council on April 30, 2004, which became effective on July 1, 2004 and as further amended on November 9, 2012, February 6, 2016 and March 2, 2019, an operator of automobile repair and maintenance services shall file a record with the local department of the Ministry of Transport for providing repair and maintenance of motor vehicles services. Enterprises engaged in motor vehicle maintenance operations shall: (i) have the necessary site to conduct repair of motor vehicles; (ii) possess necessary equipment, facilities and employees; (iii) have adopted sound administrative rules on repairing of motor vehicles; and (iv) have adopted necessary environmental protection measures. On July 28,

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2018, the State Council promulgated the Decision of the State Council on Canceling a Batch of Administrative Licensing Items (國務院關於取消一批行政許可等事項的決定) (the “Decision of the State Council”), according to which the administrative approval for repair and maintenance of motor vehicles business has been cancelled. According to the Decision of the State Council, after the cancellation of approval for repair and maintenance of motor vehicles business, the Ministry of Transport shall develop, improve and announce the repair and maintenance of motor vehicles business standards, and urge local transport administrative departments to strengthen interim and post event regulation through establishing and improving the record system for repair and maintenance of motor vehicles operation, and publishing relevant information in a timely manner as well as other measures.

REGULATIONS RELATING TO SECOND-HAND SALES OF MOTOR VEHICLES

Our sales of used vehicles are subject to the Measures for the Administration of the Circulation of Second-hand Automobiles (二手車流通管理辦法) (the “Second-hand Automobile Measures”), promulgated by MOFCOM, the Ministry of Public Security, the SAIC and SAT on August 29, 2005, which became effective on October 1, 2005 and amended on September 14, 2017.

Under the Second-hand Automobile Measures, a second-hand automobile dealer shall enter into written contracts with its customers, and provide warranties relating to the quality of the used vehicles and offer arrangements for after-sale services. The Second-hand Automobile Measures also provide for the establishment of a nationwide archival system to keep records of second-hand automobile dealers. Any second-hand automobile dealer that has been legally registered with the relevant administrative department for industry and commerce and obtained the business license shall report to the commerce authorities at the provincial level for record-filing.

REGULATIONS RELATING TO MOTOR VEHICLE INSURANCE

According to the Provisions on the Regulation of Insurance Agents (保險代理人監管規定) promulgated by the China Banking and Insurance Regulatory Commission (the “CBIRC”) on November 12, 2020 and came into effect on January 1, 2021, a concurrent-business insurance agency branch may carry out insurance agency business after obtaining the corresponding authorization from the corporation and shall promptly report the relevant situation via the regulatory information system. Where a concurrent-business insurance agency corporation authorizes a branch of a province, autonomous region, municipality directly under the central government or city specifically designated in the state plan other than that where its place of registration is located to engage in insurance agency business, it shall designate a branch to be responsible for all matters concerning insurance agency business management in the region.

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The General Office of the CBIRC has issued the Circular on Matters relating to Further Tightened Regulation of Vehicle Insurance (中國銀保監會辦公廳關於進一步加強車險監管有關事項的通知) (the “Circular”) on January 14, 2019. Aimed at addressing two issues existing in the current vehicle insurance market which are the failure to follow, as required, insurance premium rates set out in clauses of vehicle insurance policies and the false listing of fees for vehicle insurance business, the Circular proposes the following measures. First, all local branches established by the CBIRC shall, within the scope of their duties, detect, investigate and punish violations in respect of vehicle insurance business committed by property insurance agencies within their respective jurisdiction. Second, the Insurance Association of China shall establish a mechanism to accept and verify complaints and reports against its members, and timely refer clues to any possible violations to the CBIRC’s Property Insurance Department. Third, the China Insurance Information Technology Management Co., Ltd. shall institute a mechanism to monitor data related to the practically adopted vehicle insurance premium rates and report any unusual data in a timely fashion to the CBIRC’s Property Insurance Department.

REGULATIONS RELATING TO SUBSIDIES FOR NEW ENERGY VEHICLES

On October 20, 2020, the State Council of the PRC issued the Planning for the Development of the Energy-Saving and New Energy Automobile Industry (2021-2035) (新能源汽車產業發展規劃(2021-2035年) (國辦發[2020]39號)), granting generous support and subsidies to the electric vehicles and hybrid vehicles.

On July 14, 2014, the General Office of the State Council issued the Guiding Opinion of the General Office of the State Council on Accelerating the Popularization and Application of New Energy Vehicle (國務院辦公廳關於加快新能源汽車推廣應用的指導意見(國辦發[2014]35號) to grant further tax incentives and exemptions for electric vehicles, which provides that governmental subsidies shall be extended to consumers purchasing qualified pure electric vehicles, plug-in (including extended-range) hybrid electric vehicles or fuel cell vehicles.

On April 22, 2015, the MOF, the MIIT, the MST and the NDRC issued Notice on the Financial Support Policy for the Promotion and Application of New Energy Vehicles from 2016 to 2020 (關於2016-2020年新能源汽車推廣應用財政支持政策的通知(財建[2015]134號)), specifying the beneficiaries, products and standards of subsidies for new energy vehicles.

The MOF, the MIIT, the MST and the NDRC jointly issued the Notice on Adjusting the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles (關於調整新能源汽車推廣應用財政補貼政策的通知) in 2016, the Notice on Adjusting and Perfecting the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles (關於調整完善新能源汽車推廣應用財政補貼政策的通知) in 2018, the Notice of Further Improving the Fiscal Subsidy Policies for the Promotion and Application of New Energy Vehicles (關於進一步完善新能源汽車推廣應用財政補貼政策的通知) in 2019, the Notice on Improving the Policies on Government Subsidies for Promotion and Application of New

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Energy Vehicles (關於完善新能源汽車推廣應用財政補貼政策的通知) in 2020 and their respective interpretation. Pursuant to these rules, local governments may no longer subsidise new energy vehicles (except new energy buses and fuel cell vehicles) after the transitional period.

REGULATIONS RELATING TO VEHICLE EMISSION STANDARDS IN CHINA

According to the China Six Standard promulgated by MEE and the General Administration of Quality, Supervision, Inspection and Quarantine on December 23, 2016, and the Announcement on Relevant Requirements for Adjustments to the Implementation of the China Six Emission Standard for Light-duty Vehicles (關於調整輕型汽車國六排放標準實施有關要求的公告) jointly issued by MEE, MIIT, MOFCOM and the General Administration of Customs of China on May 13, 2020, (i) beginning on July 1, 2020, the China Six Standard shall be implemented nationwide. The light-duty vehicles to which China Five Standard applies shall be prohibited from production, and imported light-duty vehicles shall comply with the China Six Standard; and (ii) for light-duty vehicles produced and imported before July 1, 2020, a six-month sales transition period shall be granted. Prior to January 1, 2021, the light-duty vehicles to which the China Five Standard applies can be sold and registered in areas (including Liaoning, Jilin, Heilongjiang, Fujian, Jiangxi, Hubei, Hunan, Guangxi Zhuang Autonomous Region, Guizhou, Yunnan, Tibet Autonomous Region, Gansu, Qinghai, Ningxia and Xinjiang Uygur Autonomous Region) where the China Six Standard has not been implemented and in parts of areas in Shanxi, Inner Mongolia Autonomous Region, Sichuan and other provinces where the local governments have not announced to implement the China Six Standard.

The China Six Standard has been implemented ahead of the State's schedule in Zhejiang, Sichuan, Guangdong and Shandong provinces and Tianjin since July 1, 2019, and in Beijing since January 1, 2020. In addition, for the light-duty vehicles which have been sold with unified sales invoices and imported and transferred into other provinces before the implementation date of the China Six Standard as stipulated by the local governments, a transition period has been granted if they meet the previous China Five Standard. As such, after the implementation date as stipulated by the local governments, application for registration of vehicles that satisfy the China Five Standard was still acceptable by the local government authorities within the transition period, while the registration procedures could not be processed beyond the prescribed time limit. For the transition period granted by the local governments, it is six months for Sichuan and three months for Beijing, Tianjin, Guangdong, Shandong and Zhejiang.

Key differences between China Six Standard and China Five Standard

The China Six Standard has imposed stricter exhaust emission limits of light-duty vehicles than the China Five Standard. Compared with the China Five Standard, the China Six Standard has put forward more technical requirements for the production of automobiles, reflecting higher environmental protection requirements. For example, the emission limits of both nitrogen oxides (NO_x) and particulate matter (PM) are significantly tightened compared

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to the China Five Standard. The China Six Standard also proposes for limits on particle number (PN) emission. In addition to the technical requirements mentioned above, the China Six Standard has tightened the durability requirements, on-board diagnostic (OBD) requirements and nitrogen oxides control requirements. The China Six Standard has adopted stringent evaporative and refueling emission-control requirements as well as real-world driving emission (RDE) testing and requirements based on the European RDE provision, with modifications that address the unique driving conditions in China for both type test and in-use conformity.

REGULATIONS RELATING TO VEHICLE LOANS

We obtain financing from banks and financial institutions for our operations, including the purchase of new vehicles to be sold to our customers. Our business operations are subject to the Measures for the Management of Automobile Loans (Revised in 2017) (汽車貸款管理辦法(2017年修訂)) (the “Loans Measures”), promulgated by the PBOC and the China Banking Regulatory Commission on October 13, 2017, which became effective on January 1, 2018. According to the Loans Measures, the term of loans granted to distributors of motor vehicles for purchasing passenger vehicles and spare parts shall not be longer than one year. An automobile dealer will be subject to regular credit reviews and inspections conducted by the relevant financial institutions, the frequency of which is not specified in the Loans Measures.

REGULATIONS RELATING TO MOTOR VEHICLE RECALLS

On October 22, 2012, the State Council promulgated the Administrative Regulations on Defective Automotive Product Recalls (缺陷汽車產品召回管理條例) (the “Recall Rules”), which became effective on January 1, 2013, and was amended on March 2, 2019. On November 27, 2015, the General Administration of Quality Supervision, Inspection and Quarantine issued the Measures for Implementation of Regulation on the Administration of Recall of Defective Automobile Products (缺陷汽車產品召回管理條例實施辦法) (the “Measures”) which was effective on January 1, 2016. In accordance with the Recall Rules and the Measures, the sellers shall cease selling defective automobile products upon becoming aware of the defects in the automobile products or receiving the recall plan from the manufacturers. According to the Recall Rules, for the defective automobile product recalled, a manufacturer shall promptly take measures such as revising or supplementing marks, repair, replacement or return to remove the defect and the manufacturer shall bear the expenses to remove the defect and the necessary costs of transport for the defective automobile product. The Recall Rules also provide for higher penalty for violations by the sellers. A penalty fine between RMB500,000 and RMB1 million may be imposed on sellers who fail to cooperate with the defect investigation carried out by products quality supervision authorities, and who refuse to make corrections after receiving the orders from products quality supervision authorities; illegal proceeds, if any, shall be confiscated concurrently; in cases of violations, relevant permits shall be revoked by the licensing authorities.

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REGULATIONS RELATING TO PRODUCT QUALITY

The principal law governing product liability in the PRC is 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 (the "SCNPC") on February 22, 1993, and as amended on July 8, 2000 and August 27, 2009 and December 29, 2018.

Pursuant to the Product Quality Law, a seller shall adopt measures to keep products for sale in good quality and comply with regulations regarding the labeling of products, and shall not sell defective or damaged products, forge the origin of a product, forge or falsely use another manufacturer's authentication marks, or substitute a fake product for a genuine product or a defective product for a high-quality product.

Violation of the Product Quality Law may result in the imposition of fines, suspension of business operations, revocation of business licenses and criminal liability. Aggrieved consumers may seek compensation from both the manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer, unless any agreement between the retailer and the manufacturer provides otherwise.

REGULATIONS RELATING TO CONSUMER PROTECTION

The Consumer Rights and Interests Protection Law of the People's Republic of China (中華人民共和國消費者權益保護法) (the "Consumers Protection Law") was promulgated on October 31, 1993 and became effective on January 1, 1994. The Consumers Protection Law was further revised on August 27, 2009 and October 25, 2013. According to the Consumers Protection Law, unless otherwise provided by this law, an operator that provides products or services may bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations. When an operator collects or uses the personal information of a consumer, it shall follow the principles of acting in a legal, justifiable and necessary approach and shall expressly indicate the purpose, method and scope of the collection or use of the information and obtains the consent of the consumer. The operator shall take technical and other necessary measures to ensure the safety of such information and prevent the personal information of consumers from being disclosed or stolen. In case the information has been or potentially will be disclosed or lost, remedial measures shall be taken promptly. The Civil Code of the People's Republic of China (中華人民共和國民法典) promulgated on May 28, 2020 and effective on January 1, 2021 provides that in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation to the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation to the victim.

REGULATORY OVERVIEW

REGULATIONS RELATING TO GUARANTEES FOR FAMILY CAR PRODUCTS

On December 29, 2012, the General Administration of Quality Supervision, Inspection and Quarantine promulgated the Rules on the Liability for Repair, Replacement and Return of Family Car Products (家用汽車產品修理、更換、退貨責任規定) (the “3R Provisions”), which became effective on October 1, 2013.

The 3R Provisions provide for the “three guarantees services” responsibilities of the motor vehicle sellers. After discharging the responsibilities for their “three guarantees services”, the seller is entitled to claim against and seek compensation from the manufacturers or other dealers of family car products if the liabilities are attributable to the manufacturers or other dealers, as the case may be.

According to the 3R Provisions, the repair guarantee period for family car products shall cover no less than three years or a mileage of 60,000 kilometers, whichever comes first; and the three-guarantee period shall cover no less than two years or a mileage of 50,000 kilometers, whichever comes first.

If quality problems with the key components of the engine or the gear box of a family car product emerge within 60 days from the date of invoice or within the mileage of 3,000 kilometers, whichever comes first, consumers are entitled to free replacement of the engine or the gear box. Within the prescribed guarantee period, consumers may demand for the replacement or return of the family car products if there are serious quality problems such as the cracking of car body, failure of the braking or steering system and fuel leaks, and the seller shall be responsible for free replacement or return.

Also, within the warranty period, consumers are entitled to free replacement or return a family car product if, after two repairs, serious safety problems persist or new safety problems emerge. The same applies if quality problems with the engine, gear box or car body are such that normal usage is impossible after two replacements of the assembly concerned; or if normal usage is impossible after two replacements of the same key component of other assemblies or systems expressly specified in the manufacturer’s guarantee. The seller shall be responsible for free return or replacement.

Within 15 working days upon a consumer making a demand for replacement of a family car product, the seller shall provide the consumer with a proof of replacement. Within 15 working days upon a consumer making a demand for return, the seller shall provide the consumer with a proof of return and pay back the invoice price of the car in one lump sum.

In case of violation of the 3R Provisions, the sellers will be punished for illegal activities according to the relevant laws and regulations; if such violations do not constitute an illegal activity, the sellers will be given formal warnings and ordered to make corrections; and in serious cases, the seller will be made to pay fines up to RMB30,000. Any violation of the 3R Provisions will be publicly disclosed.

REGULATORY OVERVIEW

REGULATIONS RELATING TO PRODUCTION SAFETY

Pursuant to the Work Safety Law of the PRC (中華人民共和國安全生產法) promulgated on June 29, 2002, last revised on August 31, 2014 and became effective on December 1, 2014, production and operation entities must comply with the relevant work safety laws and regulations. Enterprises should establish relevant work safety rules, perfect the conditions for safe production, and ensure safety during production. Enterprises that do not meet the requirements for safe production are prohibited from engaging in production or other business activities. Any business entity shall establish a work safety management body or have full-time work safety management personnel if the number of its employees exceeds 100; or shall have full-time or part-time work safety management personnel if the number of its employees is 100 or less. Where an enterprise fails to comply with the relevant work safety requirements, it may be subject to fines and ordered to discontinue production. Where an enterprise is found guilty of an offence under the Work Safety Law of the PRC, the person in charge of the enterprise may be subject to criminal liabilities.

REGULATIONS RELATING TO FOREIGN INVESTMENT

On March 15, 2019, the National People's Congress (the "NPC") approved the Foreign Investment Law (外商投資法), and on December 26, 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law (外商投資法實施條例), or the "Implementing Rules", to further clarify and elaborate the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and the Implementing Rules both took effect on January 1, 2020 and replaced three previous major laws on foreign investments in China, namely, the Sino-foreign Equity Joint Venture Law (中華人民共和國中外合資經營企業法), the Sino-foreign Cooperative Joint Venture Law (中華人民共和國中外合作經營企業法) and the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法), together with their respective implementing rules. Pursuant to the Foreign Investment Law, "foreign investments" refers to investment activities conducted by foreign investors (including foreign natural persons, foreign enterprises or other foreign organizations) directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of PRC domestic enterprises, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investments made through other methods as specified in laws, administrative regulations, or as stipulated by the State Council. The Implementing Rules introduces a see-through principle and further provide that foreign-invested enterprises that invest in the PRC shall also be governed by the Foreign Investment Law and the Implementing Rules.

REGULATORY OVERVIEW

The current industry entry clearance requirements governing investment activities in the PRC by foreign investors are set out in two categories, namely the Special Entry Management Measures (Negative List) for the Access of Foreign Investment (2020 version) (外商投資准入特別管理措施(負面清單)(2020年版)), or the “2020 Negative List”, and the Encouraged Industry Catalogue for Foreign Investment (2019 version) (鼓勵外商投資產業目錄(2019年版)), which were jointly promulgated by the NDRC and MOFCOM, and took effect on July 23, 2020 and on July 30, 2019, respectively. Fields not included in the 2020 Negative List shall be managed under the principle that domestic investment and foreign investment shall be treated uniformly.

Pursuant to the Foreign Investment Law, the Implementing Rules, and the Information Reporting Measures for Foreign Investment (外商投資信息報告辦法) jointly promulgated by MOFCOM and the SAMR, which took effect on January 1, 2020, a foreign investment information reporting system has been established and foreign investors or foreign-invested enterprises shall report investment information to competent commerce departments of the government through the enterprise registration system and the national enterprise credit information publicity system, and the administration for market regulation shall forward the above investment information to the competent commerce departments in a timely manner. In addition, the Implementing Rules requires that foreign-invested enterprises which were established before the Foreign Investment Law came into effect shall adjust within a five-year transition period the provisions of their articles of association relating to the corporate governance to comply with the Foreign Investment Law. For example, the highest decision-making body of a sino-foreign joint venture enterprise shall be adjusted from the board of directors to the shareholders meeting, or, in the case of sole shareholder structure, the shareholder itself.

Pursuant to the Provisions of the Ministry of Commerce on M&A of a Domestic Enterprise by Foreign Investors (外國投資者併購境內企業的規定) which was issued on August 8, 2006 and amended on June 22, 2009, merger and acquisition of domestic enterprises by foreign investors shall comply with the laws, administrative regulations and rules of China on investor qualifications and industry, land and environmental protection policies, etc. Where the capital contribution by a foreign investor in the foreign investment enterprise incorporated after merger and acquisition is more than 25% of the registered capital of the foreign investment enterprise, the enterprise shall enjoy the treatment of foreign investment enterprise.

According to the Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) which was issued on February 3, 2011, and the Measures on Security Review of Foreign Investment (外商投資安全審查辦法), which were issued by the NDRC and MOFCOM on December 19, 2020 and will take effect on January 18, 2021, for foreign investment that affects or may affect national security, security reviews shall be conducted in accordance with the measures herein.

REGULATORY OVERVIEW

REGULATIONS RELATING TO TAXATION

Consumption Tax

Pursuant to the Notice on Adjusting the Policy of Consumption Tax on Passenger Vehicles (關於調整乘用車消費稅政策的通知) promulgated by the MOF and SAT, which became effective as of September 1, 2008, the consumption tax rate for passenger vehicles with engine displacement capacity of less than 1.0 liter has been reduced from 3% to 1%, whereas the tax rate for vehicles with larger engine displacements has been increased. In particular, the tax rate for vehicles with engine displacement of 3.0 to 4.0 liters increased from 15% to 25%, and the tax rate for vehicles with engine displacement of more than 4.0 liters increased from 20% to 40%.

According to the Vehicle and Vessel Tax Law the People's Republic of China (中華人民共和國車船稅法) as promulgated by the SCNPC and effective as of January 1, 2012 and amended on April 23, 2019 and its implementation regulations effective as of January 1, 2012 and amended on March 2, 2019, tax on passenger vehicles is calculated and imposed based on the engine displacement capacity. The annual benchmark tax on passenger cars with engine displacement capacity of 1.0 liter and below ranges from RMB60 to RMB360, while that on vehicles with engine displacement between 3.0 and 4.0 liters ranges from RMB2,400 to RMB3,600, and that on vehicles with engine displacement above 4.0 liters ranges from RMB3,600 to RMB5,400.

Enterprise Income Tax

On March 16, 2007, the NPC promulgated the Law of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅法) which became effective on January 1, 2008 and was amended on February 24, 2017 and December 29, 2018, and the State Council enacted the Regulations for the Implementation of the Law on Enterprise Income Tax of the People's Republic of China (中華人民共和國企業所得稅法實施條例) (collectively, the "EIT Law") on January 1, 2008 and was amended on April 23, 2019. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in mainland China, or if they have formed permanent establishment institutions or premises in mainland China but there is no actual relationship between the relevant income derived in mainland China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside mainland China.

REGULATORY OVERVIEW

Value-added Tax and Business Tax

The Provisional Regulations 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) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 5, 2008 and came into effect on January 1, 2009 and subsequently amended on February 6, 2016 and November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (Revised in 2011) (中華人民共和國增值稅暫行條例實施細則(2011修訂)) (collectively, the "VAT Law") were promulgated by the MOF and SAT on December 15, 2008, amended on October 28, 2011 and came into effect on November 1, 2011. According to the VAT Law, all enterprises and individuals engaged in the sales of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of mainland China must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%. On April 4, 2018, the MOF and SAT promulgated the Notice on Adjusting Value-added Tax Rates (關於調整增值稅稅率的通知), which reduced the tax rates for sale, import, and export of goods.

On March 23, 2016, the MOF and SAT jointly issued the Circular on Full Implementation of Business Tax to Value-added Tax Reform (關於全面推開營業稅改徵增值稅試點的通知) which has been partially repealed on July 1, 2017 and January 1, 2018, confirming that business tax would be completely replaced by VAT from May 1, 2016.

Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for the Exemption of Value-added Tax on Cross-border Taxable Activities under the Collection of Value-added Tax in Lieu of Business Tax (for Trial Implementation) (國家稅務總局關於發布<營業稅改徵增值稅跨境應稅行為增值稅免稅管理辦法(試行)>的公告), which was promulgated on May 6, 2016 and amended on June 15, 2018 by SAT, provides that if a domestic enterprise provides cross-border taxable services such as construction services, technical consulting, telecommunication services etc., the above mentioned cross-border taxable services shall be exempt from the value-added tax.

Environmental Protection Tax

According to the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法) (the "EPT Law") promulgated on December 25, 2016, last revised on October 26, 2018 and became effective on the same day, enterprises discharge taxable pollutants such as air pollutants, water pollutants, solid waste and noise shall file and pay environmental protection tax to the authorities on a quarterly basis from January 1, 2018 based on the List of Items and Amounts of Environmental Protection Tax (環境保護稅稅目稅額表) and the List of Taxable Pollutant and Relevant Equivalent under the Environmental Protection Law (應稅污染物和當量值表). The environmental protection tax will be collected and managed by tax authorities in accordance with the Law of the PRC on the Administration of Tax Collection (中華人民共和國稅收徵收管理法) and the EPT Law, and the environmental protection tax shall be collected instead of the pollutant discharge fees after the EPT Law takes effect.

REGULATORY OVERVIEW

REGULATIONS RELATING TO FOREIGN EXCHANGE

According to the Regulation on Foreign Exchange Administration of the PRC (中華人民共和國外匯管理條例) promulgated on January 29, 1996, last revised on August 5, 2008 and became effective on the same day, the foreign exchange income and expenditure and foreign exchange business operations of Chinese institutions and individuals, as well as the foreign exchange income and expenditure and foreign exchange business operations conducted within the territory of the PRC by overseas institutions and individuals, shall be subject to foreign exchange administration. The Renminbi is freely convertible for payments of current account items such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital expenditure items such as direct investment, loans or investments in securities outside of the PRC unless approval from SAFE or its local counterpart is obtained in advance.

According to the Circular of SAFE Concerning Reform of the Administrative Approaches to Settlement of Foreign Exchange Capital of Foreign-invested 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), which was issued on March 30, 2015, became effective on June 1, 2015 and last revised on December 30, 2019, a voluntary settlement mechanism for foreign exchange capital funds to foreign-invested enterprises shall be implemented, and RMB funds from voluntary settlement of capital funds shall be deposited into and managed under an “account for foreign exchange fund settled and to be paid”. Pursuant to SAFE Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (the “SAFE Circular 37”) (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), a domestic corporate entity and individual domestic resident, which/who, for the purposes of investment and financing, directly establishes or indirectly controls a special-purpose vehicle, and directly or indirectly undertakes domestic direct investment activities through such special-purpose vehicle using legitimately held domestic company assets or equities or using legitimately held overseas company assets or equities, namely the activity of establishing a domestic foreign investment enterprise or project by merger and acquisition or incorporating a new entity while acquiring ownership title, rights of control, rights of business operation and management and other similar activities must apply to SAFE for registration of foreign exchange for overseas investment. In 2015, the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (the “SAFE Circular 13”) (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) amended the SAFE Circular 37. According to the SAFE Circular 13, the foreign exchange administration policies for direct investment are further simplified. This includes the cancelling of two administrative approvals, namely the foreign exchange registration approvals under domestic and overseas direct investments, which shall be verified directly by banks instead; the simplifying of confirmation registration and administration over a foreign investor’s capital contribution under domestic direct investment; and the cancelling of annual foreign exchange inspection of direct investment.

REGULATORY OVERVIEW

REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), promulgated on December 26, 1989 by the SCNPC, which became effective on the same day, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises environmental protection work in the PRC, and establishes national standards for the discharge of pollutants. Each of the local environmental protection bureaus is responsible for the environmental protection work within their respective jurisdictions. The Environmental Protection Law was amended by the SCNPC on April 24, 2014, which strengthens the supervision and regulation on the environmental protection on the national level and imposes stricter punishment on the illegal activities. The amendment became effective on January 1, 2015.

According to the Classification and Administration List of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2019) (固定污染源排污許可分類管理名錄(2019年版)) (the "List") issued by MEE on December 20, 2019, the existing enterprises and public institutions and other producers and operators should apply for pollutant discharge permits within the execution period in accordance with the requirements under the List. In addition, in accordance with the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) (排污許可管理辦法(試行)) promulgated by MEE on January 10, 2018 and amended on August 22, 2019, a pollutant discharging entity that has already been established and discharged pollutants shall apply for a pollutant discharge permit.

Air Pollution

The Air Pollution Prevention Law of the People's Republic of China (中華人民共和國大氣污染防治法), promulgated on September 5, 1987 by the SCNPC, which became effective on June 1, 1988 and was last amended on October 26, 2018, establishes the legal framework for air pollution prevention in the PRC. The environmental protection department of the State Council formulates national air quality standards. Each of the local environmental protection bureaus is authorized to regulate air pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for violation.

Water Pollution

The Water Pollution Prevention Law of the People's Republic of China (中華人民共和國水污染防治法), promulgated on May 11, 1984 by the SCNPC, which became effective on November 1, 1984, and amended on May 15, 1996, February 28, 2008, and June 27, 2017, establishes the legal framework for water pollution prevention in the PRC. The environmental protection department of the State Council formulates national waste discharge standards. Enterprises that discharge waste into water shall pay a treatment fee. Each of the local environmental protection bureaus is authorized to regulate water pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for violation, including suspending operations.

REGULATORY OVERVIEW

Noise Pollution

The Noise Pollution Prevention Law of the People's Republic of China (中華人民共和國環境噪聲污染防治法), promulgated by the SCNPC on October 29, 1996, which became effective on March 1, 1997, and was amended on December 29, 2018, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, decoration or expansion project which might cause environmental noise pollution, shall prepare and submit an environmental impact report to the environmental protection authority for approval. Facilities for prevention and control of environmental noise pollution shall be designed and approved by the environmental protection authority prior to the commencement of the project, and be built and put into use simultaneously with the project works. Facilities for prevention and control of environmental noise pollution may not be dismantled or suspended without the approval of the environmental protection authority.

REGULATIONS RELATING TO LAND USE RIGHT AND CONSTRUCTION

Pursuant to the PRC Land Administration Law (中華人民共和國土地管理法) promulgated on June 25, 1986 with the latest amended on August 26, 2019 and the Civil Code of the People's Republic of China (中華人民共和國民法典) promulgated on May 28, 2020 and effective on January 1, 2021, entity that needs land for the purpose of construction must obtain land use right and must register with local counterparts of Land and Resources Ministry. Land use right is established at the time of registration.

According to the Measures for Control and Administration of Grant and Assignment of Right of Use Urban State-owned Land (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by the Ministry of Construction on December 4, 1992 and amended on January 26, 2011, and the PRC Law on Urban and Rural Planning (中華人民共和國城鄉規劃法) promulgated by the NPC on October 28, 2007 and became effective on January 1, 2008 with the latest amendment on April 23, 2019, the Measure for Administration of Granting Permission for Commencement of Construction Works (建築工程施工許可管理辦法) promulgated by the Ministry of Construction on October 15, 1999 with the latest amendment dated September 28, 2018, and the Administrative Measures for the Filing of As-built Inspection of Housing, Building and Municipal Infrastructure Projects (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) which issued on April 7, 2000, and amended on October 19, 2009, and Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) promulgated by the State Council on January 30, 2000 with the latest amendment on April 23, 2019, entities shall obtain construction works planning permit from the relevant municipal planning authority, and a construction permit from relevant construction authority in order to commence construction. After a building is completed an examination of completion by the relevant governmental authorities and experts must be organized.

REGULATORY OVERVIEW

According to the Management Regulations of Environmental Protection of Construction Project (建設項目環境保護管理條例), which was promulgated by the State Council on November 29, 1998 and amended on July 16, 2017 with effect from October 1, 2017, the PRC practices a system for the evaluation of the environmental impact of a construction project. Where the preparation of the environmental impact report or environmental impact statement is required for a construction project under the law, prior to commencement of construction, the construction unit shall submit the environmental impact report or environmental impact statement to the competent administrative department of environmental protection for approval. Where the environmental impact registration form is required to be completed under the law, the construction unit shall submit the environmental impact registration form to the competent administrative department of environmental protection at county level of the place where the construction project is located for record-filing. Further, the construction entity shall, after the completion of the construction projects requiring the preparation of the environmental impact report or environmental impact statement, conduct inspection and acceptance of the environmental protection facilities and prepare inspection and acceptance report. A construction project requiring the preparation of the environmental impact report or the environmental impact statement shall not be put into operation or use until the environmental protection facilities have passed the inspection and acceptance.

REGULATIONS RELATING TO COMPETITION AND ANTI-MONOPOLY

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, which became effective on December 1, 1993 and was amended on November 4, 2017 and April 23, 2019, businesses may not engage in improper market activities to undermine their competitors, including infringing trademark rights or confidential business information, generating false publicity through advertising or other means or forging and disseminating false information, infringing upon the goodwill of competitors or the reputation of their products, bribing, establishing cartels, and dumping goods below cost.

The Anti-Monopoly Law of the People's Republic of China (中華人民共和國反壟斷法), promulgated by the SCNPC on August 30, 2007, which became effective on August 1, 2008, requires proposals for foreign acquisitions and investment in domestic companies to undergo national security reviews, protects core Chinese industries, and grants the PRC government authorities substantial discretion in making determinations as to monopolistic agreements, abuses of dominant positions, concentrations of power and abuses of administrative powers to eliminate or restrict competition. Violation of the Anti-unfair Competition Law or the Anti-Monopoly Law may result in the imposition of fines, revocation of business licenses and criminal liability.

REGULATORY OVERVIEW

REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Patent

Patents in the PRC are principally protected under the Patent Law of the PRC (中華人民共和國專利法) which was promulgated by the SCNPC on March 12, 1984 and latest revised on October 17, 2020. The duration of a patent right is 15 years from the date of application, depending on the type of patent right.

Copyright

Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law of the PRC (中華人民共和國著作權法), which was revised by the SCNPC on November 11, 2020 and will come into effect on June 1, 2021, and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years. The Regulation on the Protection of the Right to Communicate Works to the Public over Information Networks (信息網絡傳播權保護條例), which was most recently amended on January 30, 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and Internet service providers.

Trademark

Registered trademarks are protected under the Trademark Law of the PRC (中華人民共和國商標法), which was promulgated by the SCNPC on August 23, 1982 and revised on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019, respectively, and related rules and regulations. Trademarks are registered with the State Intellectual Property Office, formerly the Trademark Office of the SAIC. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of this trademark may be rejected. Trademark registrations are effective for 10 years, unless otherwise revoked.

Domain Name

Domain names are protected under the Administrative Measures on Internet Domain Names (互聯網域名管理辦法) promulgated by the MIIT on August 24, 2017 and effective on November 1, 2017. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

REGULATORY OVERVIEW

REGULATIONS RELATING TO LABOUR LAW

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) promulgated on June 29, 2007, last revised on December 28, 2012 and became effective on July 1, 2013, requires every employer to enter into a written contract of employment with each of its employees. No employer may force its employees to work beyond the time limit and each employer must pay overtime compensation to its employees. The wage of each employee is to be no less than the local standard on minimum wages. According to the Labour Law of the PRC (中華人民共和國勞動法) promulgated on July 5, 1994, last revised on December 29, 2018 and became effective on the same day, every employer must ensure workplace safety and sanitation in accordance with national regulations and provide relevant training to its employees.

REGULATIONS RELATING TO SOCIAL INSURANCE AND HOUSING PROVIDENT FUNDS

In accordance with the Social Insurance Law of the PRC (中華人民共和國社會保險法) promulgated on October 28, 2010, last amended on December 29, 2018 and became effective on the same day, as well as other relevant provisions, an employee shall participate in five types of social insurance funds, including pension, medical, unemployment, maternity and occupational injury insurance. The premiums for maternity insurance and occupational injury insurance are paid by the employer, while the premiums for pension insurance, medical insurance and unemployment insurance are paid by both the employer and the employee. If the employer fails to fully contribute to social insurance funds on time, the collection agency for such social insurance may demand the employer to make full payment or to pay the shortfall within a set period and collect a late charge. If the employer fails to pay after the due date, the relevant government administrative body may impose a fine on the employer.

Pursuant to the Regulation on the Administration of Housing Provident Funds (住房公積金管理條例) (the “Housing Provident Fund”) promulgated on April 3, 1999, last revised on March 24, 2019 and became effective on the same day, an employer must register with the competent managing center for housing funds and shall contribute to the Housing Provident Fund for any employee on its payroll. Where an employer fails to pay up housing provident funds within the prescribed time limit, the employer may be fined and ordered to make payment within a certain period.

HISTORY AND REORGANIZATION

OUR HISTORY

Our Company

Our Company was incorporated in the Cayman Islands on May 18, 2018 as an exempted company with limited liability. As a result of the Corporate Reorganization, our Company became the ultimate holding company of our various subsidiaries. Further details of our corporate structure and the Corporate Reorganization are set out in “History and Reorganization — Corporate Reorganization” in this prospectus.

Our Group was founded by Mr. Chou, our Chairman, executive Director, chief executive officer and one of our Controlling Shareholders, when he set up Beijing BetterLife Group in 1998 and obtained the dealership authorization from Audi as one of the first dealers of Audi in China in 1999. Prior to founding our Group, Mr. Chou engaged in trading business. Mr. Chou used his personal wealth to fund his capital contributions and acquisitions of equity interests in our PRC operating subsidiaries.

At the time when Mr. Chou founded our Group in 1998, foreign investment in the business of sale of automobiles in China was restricted and any such foreign investment shall be approved by the competent authority in foreign investment according to the Interim Provisions for Guiding the Foreign Investment Direction which was promulgated and became effective on June 20, 1995 and the Industry Guidance Catalogue for Foreign Investment which was promulgated in 1995, revised in 1997 and became effective on January 1, 1998. As Mr. Chou is a German national and was subject to such restriction as a foreign investor, he financed the establishment of companies to engage in the business of sale of automobiles in the PRC and made arrangements with certain relatives and friends resident in the PRC as the registered shareholders of these companies to hold equity interests in these companies for and on his behalf (collectively, the “Historical Entrustment Arrangements”). According to the Industry Guidance Catalogue for Foreign Investment (2004 revised), the said restriction on foreign investment previously applicable to us regarding the business of sale of automobiles in China shall be lifted no later than December 2006. After the aforementioned restriction was officially lifted in December 2007, the Historical Entrustment Arrangements were unwound by way of acquisition of equity interests held by the nominee shareholders by our Group. As of the Latest Practicable Date, (i) there was no dispute between Mr. Chou and the relevant nominee shareholders regarding the Historical Entrustment Arrangements or equity interests involved, (ii) there was no notice from any government authority questioning the validity of the Historical Entrustment Arrangements, and (iii) all of our PRC operating subsidiaries had completed all required filing or registration at competent authorities in all material respects, including the SAIC. As advised by our PRC Legal Advisor, the Historical Entrustment Arrangements do not affect the legal and effective existence of our PRC operating subsidiaries, and the risk of the Historical Entrustment Arrangements being invalidated is low.

HISTORY AND REORGANIZATION

As of the Latest Practicable Date, we operated 12 stores across six provinces and municipalities in China, namely Beijing, Tianjin, Shandong, Zhejiang, Guangdong and Sichuan.

Our Business Milestones

The key milestones of the development of our Group are as follows:

| Year | Event |
|-------------|---|
| 1998 | Beijing BetterLife Automobile Repairing Service Co., Ltd.* (北京百得利汽車修理服務有限公司) (now known as Beijing BetterLife Group) was established and engaged in (among others) the provision of repair and maintenance services to automobiles and sale of automobile accessories. |
| 1999 | We obtained the dealership of Audi in Northern China. |
| 2000 | We launched our first Audi store in Yizhuang, Beijing. |
| 2001 | We obtained the dealership of imported Audi in six cities and provinces in Northern China. |
| 2002 | We obtained the dealership of Porsche in Northern China. |
| 2003 | We launched our first Porsche dealership store in Yizhuang, Beijing, which was the first Porsche 3S dealership store in China. |
| 2007 | We launched our first Porsche store in Tianjin. |
| 2009 | <ul style="list-style-type: none">• We obtained the dealership of Mercedes-Benz.• We launched our first Mercedes-Benz store in Haidian, Beijing. |
| 2010 | Mr. Chou entered into an equity transfer agreement with Famous Great involving reorganization of our Group. Our Group was ultimately owned by Mr. Chou and Zhongsheng Holdings. |
| 2016 | <ul style="list-style-type: none">• Mr. Chou and Famous Great entered into a reorganization agreement. Zhongsheng Holdings ceased to have interest in our Group following the reorganization.• We acquired equity interests in Chengdu Jinbao and Chengdu Xinbao and expanded into the Sichuan market.• We launched our first Bentley store in Qingdao. |
| 2018 | <ul style="list-style-type: none">• We obtained the dealership of Volvo in China.• We launched our first Volvo store in Haidian, Beijing. |
| 2019 | <ul style="list-style-type: none">• We obtained the dealership of Jaguar-Land Rover in China.• We launched our first Jaguar-Land Rover store in Hangzhou. |
| 2020 | We acquired Laifu Auto and expanded into the Guangdong market. |

HISTORY AND REORGANIZATION

Our Corporate History

(1) *Shareholding and corporate changes of major subsidiaries of our Company*

Set out below are details of our eight major subsidiaries which are material to the results or assets of our Group. For a full list of our current PRC operating subsidiaries, please refer to “History and Reorganization — Shareholding Structure upon Completion of the Global Offering” in this prospectus.

a. Beijing BetterLife Group (北京百得利汽車進出口集團有限公司)

Our history can be traced back to 1998 when Beijing BetterLife Group was established in the PRC under the name of Beijing BetterLife Automobile Repairing Service Co., Ltd.* (北京百得利汽車修理服務有限公司) with a registered capital of RMB2 million and commenced its business operation on September 3, 1998 which was engaged in (among others) providing repair and maintenance services to automobiles and sale of automobile accessories. The initial registered shareholders, namely Ms. Li Ying (李瑩), a relative of Mr. Chou, and Ms. Ding Jing (丁靜), who was a personal assistant of Mr. Chou’s family business at the material time, held the equity interests in Beijing BetterLife Group on behalf of Mr. Chou according to the Historical Entrustment Arrangements.

Pursuant to a shareholders’ resolution of Beijing BetterLife Group dated May 18, 2005, among others, the name of the company was changed to its current name, Beijing BetterLife Motor Import and Export Group Co., Ltd.* (北京百得利汽車進出口集團有限公司) which was approved by the relevant local authority on May 31, 2005.

As of September 10, 2007, the equity interests in Beijing BetterLife Group were held as to 50% and 50% by Ms. Zhou Linhua (周林花) (a relative of Mr. Chou) and Mr. Zheng Yong (鄭勇) (a relative of Mr. Chou) on behalf of Mr. Chou, respectively. With a view of unwinding the Historical Entrustment Arrangements, BetterLife Tianjin entered into an equity transfer agreement with Ms. Zhou Linhua on September 10, 2007, pursuant to which Mr. Zhou Linhua transferred 50% of equity interests in Beijing BetterLife Group to BetterLife Tianjin for a consideration of RMB30 million which was settled on September 28, 2007. On September 10, 2007, BetterLife Tianjin also entered into an equity transfer agreement with Mr. Zheng Yong who agreed to transfer 40% of equity interests in Beijing BetterLife Group to BetterLife Tianjin for a consideration of RMB24 million which was settled on September 28, 2007. The considerations for the above transfers were based on the then registered capital of Beijing BetterLife Group and, as confirmed by Ms. Zhou Linhua, Mr. Zheng Yong and Mr. Chou, were subsequently remitted to Mr. Chou for the unwinding of the Historical Entrustment Arrangements. After such transfers, Beijing BetterLife Group was owned as to 10% and 90% by Mr. Zheng Yong and BetterLife Tianjin, respectively.

HISTORY AND REORGANIZATION

Pursuant to an equity transfer agreement dated October 25, 2007, Mr. Zheng Yong transferred 10% of equity interests in Beijing BetterLife Group to Tianjin BetterLife Auto for a consideration of RMB6 million which was settled on November 28, 2007. The consideration for the above transfer was based on the then registered capital of Beijing BetterLife Group and, as confirmed by Mr. Zheng Yong and Mr. Chou, was subsequently remitted to Mr. Chou for the unwinding of the Historical Entrustment Arrangements. After such transfer and as of the Latest Practicable Date, Beijing BetterLife Group was owned as to 10% and 90% by Tianjin BetterLife Auto and BetterLife Tianjin, respectively. As of the Latest Practicable Date, each of Tianjin BetterLife Auto and BetterLife Tianjin is our wholly owned-subsiary. Please refer to “Our History — Our Corporate History — (1) Shareholding and corporate changes of major subsidiaries of our Company — b. BetterLife Tianjin (百得利(天津)企業管理集團有限公司)” and “Our History — Our Corporate History — (1) Shareholding and corporate changes of major subsidiaries of our Company — f. Tianjin BetterLife Auto (天津百得利汽車服務有限公司)” in this section for further information.

b. BetterLife Tianjin (百得利(天津)企業管理集團有限公司)

BetterLife Tianjin, initially named as Tianjin Zhoushi Xingye International Trade Co., Ltd.* (天津周氏興業國際貿易有限公司), was established in the PRC on August 30, 2007 with a registered capital of RMB10 million. The initial registered shareholders, namely, Ms. Zhang Cuilian (張翠蓮) and Ms. Que Linlan (闕林蘭) held 50% and 50% of equity interests in BetterLife Tianjin on behalf of Mr. Chou according to the Historical Entrustment Arrangements. Ms. Zhang was a relative of Mr. Chou and Ms. Que was a friend of Mr. Chou. At the time of its establishment, BetterLife Tianjin was engaged in (among others) providing repair and maintenance services to automobiles and the sale of automobile parts and accessories.

With a view of unwinding the Historical Entrustment Arrangements, Mr. Chou entered into an equity transfer agreement with Ms. Zhang Cuilian dated September 21, 2007, pursuant to which 50% of the equity interests in BetterLife Tianjin was transferred to Mr. Chou for a consideration of RMB5 million which was settled on December 20, 2007. On September 21, 2007, Mr. Chou also entered into an equity transfer agreement with Ms. Que Linlan, pursuant to which 40% of the equity interests in BetterLife Tianjin was transferred to Mr. Chou for a consideration of RMB4 million which was settled on December 25, 2007. Pursuant to an equity transfer agreement dated September 21, 2007, Ms. Que Linlan transferred 10% of the equity interests in BetterLife Tianjin to Mr. Chou Wanghan (father of Mr. Chou) for a consideration of RMB1 million which was settled on December 21, 2007. The consideration of each of the above transfers was based on the then registered capital of BetterLife Tianjin and, as confirmed by Ms. Zhang Cuilian, Ms. Que Linlan and Mr. Chou, was subsequently remitted to Mr. Chou for the unwinding of the Historical Entrustment Arrangements. After such transfers, the equity interests in BetterLife Tianjin were held as to 10% and 90% by Mr. Chou Wanghan and Mr. Chou, respectively.

HISTORY AND REORGANIZATION

Pursuant to an equity transfer agreement dated November 23, 2010, Mr. Chou transferred 90% of the equity interests in BetterLife Tianjin to BetterLife International, which was a company incorporated in Hong Kong and the issued share capital of which was indirectly held as to 50% and 50% by Mr. Chou and Zhongsheng Holdings at the material time, for a consideration of approximately RMB202 million. Pursuant to an equity transfer agreement dated November 23, 2010, Mr. Chou Wanghan transferred 10% of the equity interests in BetterLife Tianjin to BetterLife International for a consideration of approximately RMB22.48 million. The consideration for the above transfers was based on the then registered capital of BetterLife Tianjin (being RMB224,820,000). As the above transfers were conducted pursuant to the Group's then reorganization plan, no consideration was actually paid to Mr. Chou and Mr. Chou Wanghan at the material time. The consideration was finally settled in 2018 during the Corporate Reorganization. After such transfers and as of the Latest Practicable Date, BetterLife Tianjin was owned as to 100% by BetterLife International.

Pursuant to a shareholder's resolution dated July 31, 2019, the change of BetterLife Tianjin into its current name BetterLife Tianjin Management Group Co., Ltd. (百得利(天津)企業管理集團有限公司) was approved and the change of name was also approved by the relevant local authority on August 21, 2019.

c. Beijing BetterLife Star (北京百得利之星汽車銷售有限公司)

Beijing BetterLife Star was established in the PRC on January 9, 2008 with a registered capital of RMB20 million. Beijing BetterLife Group and Tianjin BetterLife Auto committed to contribute RMB16 million and RMB4 million, respectively. At the time of its establishment, Beijing BetterLife Star was principally engaged in the sale of automobiles and organizing display activities.

Pursuant to a shareholders' resolution dated July 25, 2008, among others, the shareholding in Beijing BetterLife Star was adjusted and it was confirmed that 90% of equity interest in Beijing BetterLife Star was held by Beijing BetterLife Group and 10% held by Tianjin BetterLife Auto.

Pursuant to a shareholder's resolution and the amendment to articles dated August 28, 2009, the registered capital of Beijing BetterLife Star increased from RMB20 million to RMB40 million. Beijing BetterLife Group and Tianjin BetterLife Auto additionally contributed RMB18 million and RMB2 million, respectively, into the share capital of Beijing BetterLife Star. As of the Latest Practicable Date, Beijing BetterLife Star was owned by Beijing BetterLife Group as to 90% and Tianjin BetterLife Auto as to 10%.

HISTORY AND REORGANIZATION

d. Beijing BetterLife Auto Trade (北京百得利汽車貿易有限公司)

Beijing BetterLife Auto Trade was established in the PRC on February 6, 2004 with a registered capital of RMB5 million. The initial registered shareholders were Beijing BetterLife Group and Ms. Zhou Linhua (周林花) (on Mr. Chou's behalf) who held 80% and 20% of the equity interests in Beijing BetterLife Auto Trade. At the time of its establishment, Beijing BetterLife Auto Trade was primarily engaged in the sale of automobiles, provision of repair and maintenance services to automobiles and sale of automobile accessories.

Pursuant to an equity transfer agreement dated October 25, 2007, Ms. Zhou Linhua transferred all her interest in Beijing BetterLife Auto Trade to Tianjin BetterLife Auto for RMB4 million which was based on the then registered capital of Beijing BetterLife Auto Trade. The consideration for the transfer was fully settled on February 29, 2008 and, as confirmed by Ms. Zhou Linhua and Mr. Chou, was subsequently remitted to Mr. Chou for the unwinding of the Historical Entrustment Arrangements. After the transfer and as of the Latest Practicable Date, Beijing BetterLife Auto Trade was owned by Beijing BetterLife Group as to 80% and Tianjin BetterLife Auto as to 20%.

e. Beijing BetterLife Auto (北京百得利汽車銷售有限公司)

Beijing BetterLife Auto was established in the PRC on April 14, 2008 with a registered capital of RMB20 million. Beijing BetterLife Group and Tianjin BetterLife Auto contributed RMB16 million and RMB4 million, respectively, into the share capital of Beijing BetterLife Auto. At the time of its establishment, Beijing BetterLife Auto was principally engaged in the sale of automobiles and organizing display activities. Since its establishment and as of the Latest Practicable Date, Beijing BetterLife Auto was owned by Beijing BetterLife Group as to 80% and Tianjin BetterLife Auto as to 20%.

f. Tianjin BetterLife Auto (天津百得利汽車服務有限公司)

Tianjin BetterLife Auto was established in the PRC on May 26, 2006 with a registered capital of RMB10 million. Beijing BetterLife Group and Tianjin Guomao held 80% and 20% equity interests in Tianjin BetterLife Auto, respectively. At the time of its establishment, Tianjin BetterLife Auto was principally engaged in the sale of automobiles.

Pursuant to an equity transfer agreement dated November 15, 2018, Tianjin Guomao's 20% interest in Tianjin BetterLife Auto was transferred to BetterLife Tianjin at a consideration of RMB84 million which was settled on December 24, 2018 after fully set-off by the amounts due from the relevant transferee to the transferor. The consideration was determined primarily based on the asset value of Tianjin BetterLife Auto assessed by the relevant valuation report. After the transfer and as of the Latest Practicable Date, the equity interests in Tianjin BetterLife Auto were owned by Beijing BetterLife Group as to 80% and BetterLife Tianjin as to 20%.

HISTORY AND REORGANIZATION

g. *Chengdu Xinbao* (成都百川新保汽車銷售服務有限公司)

Chengdu Xinbao, initially named as Chengdu Hengjie Auto Sales and Services Ltd* (成都恒捷汽車銷售服務有限公司), was established in the PRC on March 30, 2012. Pursuant to an equity transfer agreement dated April 18, 2016, Beijing BetterLife Group acquired 21% and 49% of shares in Chengdu Xinbao from the then shareholders, Ms. Zhang Yuan (張媛) and Ms. Hu Xiaoxia (胡曉霞) for a consideration of approximately RMB13.5 million and RMB31.5 million, respectively. The consideration for the transactions was settled on May 24, 2016. The consideration was determined after arm's length negotiation with reference to the net book value of Chengdu Xinbao. Ms. Zhang is the daughter of Ms. Hu and each of Ms. Zhang and Ms. Hu was an Independent Third Party immediately before the transactions. The remaining shareholder of Chengdu Xinbao at the material time was Chengdu Chuanwu, which was then ultimately and beneficially owned by Ms. Hu (35%), Mr. Zhang Zheng (張政) (35%), who is Ms. Hu's husband, and Mr. Zhang Heng (張恆) (30%), who is Ms. Hu's son. The principal business engaged by Chengdu Xinbao was the sale of automobiles (Porsche) and provision of ancillary services.

On April 22, 2016, the registered capital of Chengdu Xinbao was increased from RMB14,285,714.29 to RMB33,333,333.33. The aggregate capital contribution by Beijing BetterLife Group and Chengdu Chuanwu into Chengdu Xinbao was approximately RMB23.3 million and RMB10 million, respectively. Chengdu Xinbao has been held as to 70% by Beijing BetterLife Group and 30% by Chengdu Chuanwu since then. As of the Latest Practicable Date, Chengdu Chuanwu is ultimately and beneficially owned by Mr. Zhang Heng as to 50%, Ms. Zhang Yuan as to 30%, Ms. Hu Xiaoxia as to 10% and Mr. Zhang Zheng as to 10%.

h. *Chengdu Jinbao* (成都百川金保汽車銷售服務有限公司)

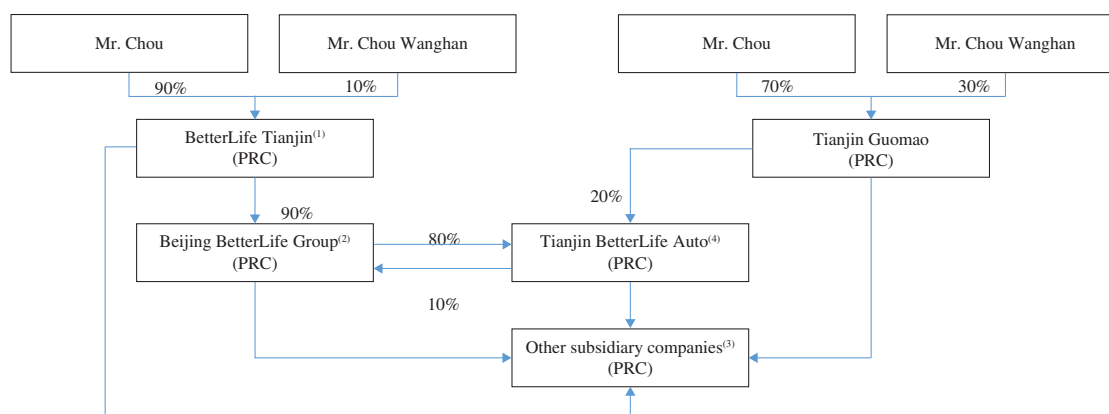
Chengdu Jinbao was established in the PRC on January 8, 2014. Pursuant to an equity transfer agreement dated May 24, 2016, Beijing BetterLife Group acquired 21% and 9% of shares in Chengdu Jinbao from the then shareholders, Ms. Hu Xiaoxia (胡曉霞) and Mr. Zhang Zheng (張政) for a consideration of approximately RMB17.5 million and RMB7.5 million, respectively. The consideration was determined after arm's length negotiation with reference to the net book value of Chengdu Jinbao. The consideration was settled on July 14, 2016. The remaining shareholder of Chengdu Jinbao at the material time was Chengdu Chuanwu, a company then ultimately and beneficially owned by Ms. Hu, Mr. Zhang Zheng and Mr. Zhang Heng. The principal business engaged by Chengdu Jinbao was the sale of automobiles (Porsche) and the provision of ancillary services.

HISTORY AND REORGANIZATION

After the above transfer, the aggregate capital contribution by Beijing BetterLife Group and Chengdu Chuanwu into Chengdu Jinbao was RMB10 million and approximately RMB23.33 million, respectively. Chengdu Jinbao has been held as to 30% by Beijing BetterLife Group and 70% by Chengdu Chuanwu since then. Despite Beijing BetterLife Group holding 30% of interest in Chengdu Jinbao, our Group and Chengdu Chuanwu agreed that Chengdu Chuanwu would be a passive investor and the daily operations and overall management rights in Chengdu Jinbao shall vest in our Group upon completion of the acquisition. In addition, the financials of Chengdu Jinbao have been consolidated into our Group and accounted for as our subsidiary pursuant to the relevant accounting standards as our Group owns 51% of the voting rights in the shareholders meetings of Chengdu Jinbao as agreed by its shareholders.

(2) Reorganization and transactions with Zhongsheng Group in 2010

As of June 1, 2010, the simplified company structure of our Group was as follows:



Notes:

- (1) Please refer to “Our History — Our Corporate History — (1) Shareholding and corporate changes of major subsidiaries of our Company — b. BetterLife Tianjin (百得利(天津)企業管理集團有限公司)” above in this section for further information of this company.
- (2) 10% shareholding in Beijing BetterLife Group was held by Tianjin BetterLife Auto, which was in turn held by Beijing BetterLife Group and Tianjin Guomao as to 80% and 20%, respectively.
- (3) There were in total 11 companies. Further information as to these 11 companies and their respective shareholders is set out as follows:

| Company | Shareholders |
|---|---|
| 1. Beijing BetterLife Auto Trade | Beijing BetterLife Group (80%) Tianjin BetterLife Auto (20%) |
| 2. Tianjin BetterLife Auto | Beijing BetterLife Group (80%) Tianjin Guomao (20%) |
| 3. Beijing BetterLife Zhida Automobile Trade Co., Ltd.* (北京百得利之達汽車銷售有限公司) | Beijing BetterLife Auto Trade (20%) Beijing BetterLife Group (80%) |
| 4. Tianjin BetterLife Audi Automobile Sales Co., Ltd.* (天津百得利之迪汽車銷售有限公司) | Tianjin BetterLife Auto (20%) Beijing BetterLife Group (80%) |

HISTORY AND REORGANIZATION

| | Company | Shareholders |
|-----|---|---|
| 5. | Beijing BetterLife Star | Beijing BetterLife Group (90%) Tianjin BetterLife Auto (10%) |
| 6. | Tianjin BetterLife Automobile Sales Co., Ltd.* (天津百得利汽車銷售有限公司) | Beijing BetterLife Group (80%) Tianjin Guomao (20%) |
| 7. | Beijing BetterLife Auto | Beijing BetterLife Group (80%) Tianjin BetterLife Auto (20%) |
| 8. | Tianjin BetterLife Automobile Rental Co., Ltd.* (天津百得利汽車租賃有限公司) | BetterLife Tianjin (90%) Tianjin BetterLife Auto (10%) |
| 9. | Beijing BetterLife Used Auto | Beijing BetterLife Group (80%) Tianjin BetterLife Auto (20%) |
| 10. | Tianjin BetterLife Investment Co., Ltd.* (天津百得利投資有限公司) | BetterLife Tianjin (90%) Tianjin Guomao (10%) |
| 11. | Chengdu BetterLife Automobile Trading Co., Ltd.* (成都百得利汽車貿易有限公司) | BetterLife Tianjin (80%) Beijing BetterLife Auto Trade (20%) |

- (4) In respect of the cross-shareholding and group structure presented in notes (2) and (3) above, our PRC Legal Advisor has confirmed that, under PRC laws and regulations, (i) there is no restriction on cross-shareholding among companies; (ii) such arrangement by our Group is legal and valid; and (iii) such arrangement did not constitute any reduction, repurchase or withdrawal of the respective registered capital of the relevant companies.

On June 29, 2010, B&L Motor was incorporated in the BVI. Its then authorized share capital was USD50,000 divided into 50,000 shares with a nominal value of USD1.00 each. On the date of incorporation, 1 share was issued and allotted to Mr. Chou. On September 28, 2010, 99 shares were issued and allotted to Mr. Chou. Mr. Chou remained as the sole shareholder of B&L Motor immediately after such share allotment.

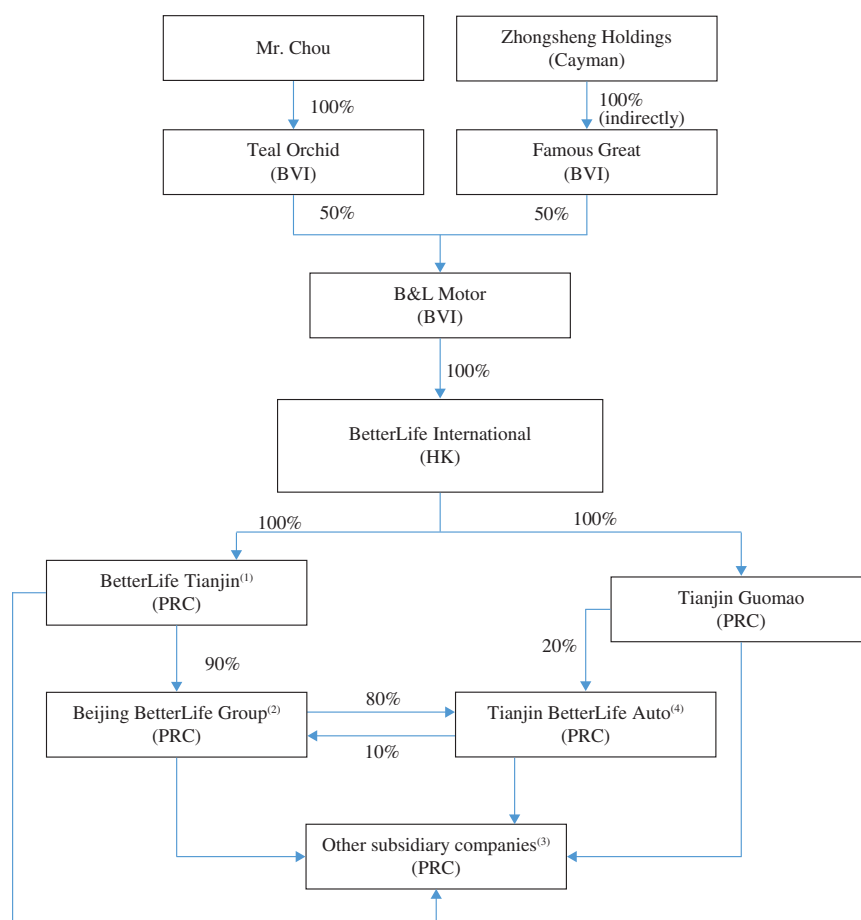
On July 15, 2010, BetterLife International was incorporated in Hong Kong, with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the date of its incorporation, all of the shares were issued and allotted to B&L Motor, making it the then sole shareholder of BetterLife International.

In view of leveraging Zhongsheng Holdings' status as a listed company on the Stock Exchange, and for the purpose of expanding financing channels of our Group and enhancing our brand portfolio, on September 30, 2010, Famous Great, an indirect wholly-owned subsidiary of Zhongsheng Holdings at the material time, was introduced as a shareholder by acquiring 50 shares in B&L Motor from Mr. Chou pursuant to an equity transfer agreement dated September 29, 2010. The consideration was RMB1.1 billion and was determined with reference to, among others, the luxury nature of automobile brands covered by B&L Motor and its then subsidiaries (including, among others, BetterLife International, BetterLife Tianjin and Beijing BetterLife Group), the customer base and combined net asset value of B&L Motor and the target subsidiaries. On the same date, Mr. Chou transferred 50 shares in B&L Motor to Teal Orchid (a holding company ultimately controlled by Mr. Chou at the relevant time). After such transfers, B&L Motor was owned as to 50% and 50% by Famous Great and Teal Orchid, respectively, while B&L Motor was accounted as a subsidiary of Famous Great as it had majority control in the board of directors of B&L Motor according to the shareholders' agreement of B&L Motor entered into among Famous Great, Teal Orchid and their respective beneficial owners. Immediately prior to such transfers and as of the Latest Practicable Date, Zhongsheng Holdings was an Independent Third Party.

HISTORY AND REORGANIZATION

As part of the then corporate restructure plan in late 2010, equity interests in BetterLife Tianjin and Tianjin Guomao were transferred from Mr. Chou and Mr. Chou Wanghan to BetterLife International. In respect of Tianjin Guomao, pursuant to two equity transfer agreements both dated November 23, 2010, Mr. Chou and Mr. Chou Wanghan transferred 70% and 30% equity interests in Tianjin Guomao to BetterLife International for a consideration of approximately US\$4.94 million and US\$2.12 million, respectively, which was determined with reference to the then registered capital of Tianjin Guomao. As the above transfers were conducted pursuant to the Group’s then reorganization plan, no consideration was actually paid to Mr. Chou and Mr. Chou Wanghan at the material time. The consideration was finally settled in 2018 during the Corporate Reorganization. Please also refer to “Our History — Our Corporate History — (1) Shareholding and corporate changes of major subsidiaries of our Company — b. BetterLife Tianjin (百得利(天津)企業管理集團有限公司)” in this section for further details of the transfers involved for BetterLife Tianjin.

Immediately after the transactions described above, the simplified structure of our Group was as follows:



HISTORY AND REORGANIZATION

Notes:

- (1) Please refer to note (1) on page 149 above.
- (2) Please refer to note (2) on page 149 above.
- (3) Please refer to note (3) on page 149 above.
- (4) Please refer to note (4) on page 150 above.

At the material time, (i) Teal Orchid was solely owned by Mr. Chou (and all his interest in Teal Orchid was transferred at nil consideration to Red Dynasty on July 13, 2011); and (ii) Famous Great was an indirect wholly-owned subsidiary of Zhongsheng Holdings.

(3) Transactions with Zhongsheng Group in 2016

Our growth strategy was to expand our ultra-luxury brands network in the tier-one and tier-two cities in China through a combination of organic growth and selected acquisitions, while Zhongsheng Group was focusing on mid-to-high end and luxury brands' expansion in other cities and regions in China. Due to the differences in strategic focus and target markets between Zhongsheng Group and our Group, on September 30, 2015, among other parties, (i) Teal Orchid, being the then shareholder of B&L Motor which held 50% of equity interests in B&L Motor, (ii) Mr. Chou and (iii) Famous Great entered into a reorganization framework agreement, pursuant to which, the parties agreed on the general principles for reorganization of B&L Motor and to further enter into definite agreement to provide detailed provisions.

On April 8, 2016, the same parties entered into a reorganization agreement (“Zhongsheng Reorganization Agreement”). Pursuant to the Zhongsheng Reorganization Agreement, among others, (i) all equity interests in seven PRC subsidiaries of B&L Motor (the “Relevant Subsidiaries”) were transferred to a subsidiary designated by Famous Great; (ii) all equity interests in four companies owned by Mr. Chou (which were not B&L Motor’s subsidiaries) (“Chou’s Four Companies”) were transferred to a subsidiary designated by Famous Great; and (iii) 50% of equity interests held by Famous Great in B&L Motor (excluding its interests in the Relevant Subsidiaries) were transferred to Teal Orchid. For details of the Relevant Subsidiaries transferred out from B&L Motor, please refer to the table on page 153 below. Chou’s Four Companies included Yantai BetterLife Automobile Sales Co., Ltd.* (煙臺百得利汽車銷售有限公司), Shijiazhuang BetterLife Automobile Repair Co., Ltd.* (石家莊百得利汽車修理有限公司), Zhejiang BetterLife Automobile Co., Ltd.* (浙江百得利汽車有限公司) and Yantai BetterLife Automobile Sales Service Co., Ltd.* (煙臺百得利汽車銷售服務有限公司), all of which were not our subsidiaries at the material time. Upon completion of the transfers and up to the Latest Practicable Date, except for Mr. Chou’s interests in our Group, Mr. Chou did not hold any interest in companies engaged in 4S dealership business.

HISTORY AND REORGANIZATION

The parties to the Zhongsheng Reorganization Agreement also agreed (i) that the value of B&L Motor shall be determined based on the book value of the consolidated net assets of B&L Motor as at June 30, 2015 which shall form the basis of the reorganization, and (ii) the book value of the net assets of the companies to be transferred into Zhongsheng Group and out of Zhongsheng Group shall be used to determine Zhongsheng Group's and Mr. Chou's entitlement, respectively, in the interest of B&L Motor after its reorganization. The difference of Zhongsheng Group's and Mr. Chou's respective entitlement amounted to RMB106,321,000 which was offset by payables of B&L Motor and Mr. Chou to Zhongsheng Group. As such, taking into account such payables, the considerations of the above transfers (i) and (ii) and the above transfer (iii) were offset against each other and no actual cash payment was involved.

On June 30, 2016, Famous Great transferred 50 shares of B&L Motor to Teal Orchid. After such transfer, B&L Motor was owned as to 100% by Teal Orchid.

Details of the Relevant Subsidiaries

The details of the Relevant Subsidiaries disposed of by our Group under the Zhongsheng Reorganization Agreement are set out below:

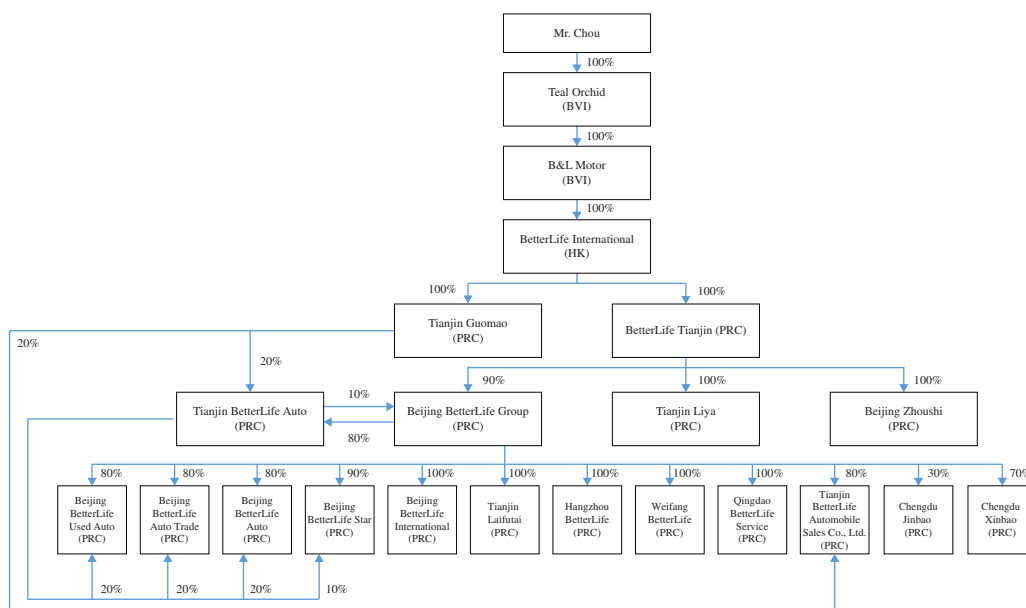
| Company | Date of incorporation | Principal Business at the material time |
|---|------------------------------|--|
| 1. Chengdu BetterLife Automobile Trading Co., Ltd.* (成都百得利汽車貿易有限公司) | August 24, 2010 | Sale and service of automobiles |
| 2. Tianjin BetterLife Audi Automobile Sales Co., Ltd.* (天津百得利之迪汽車銷售有限公司) | October 30, 2007 | Sale and service of automobiles |
| 3. Tianjin BetterLife Investment Co., Ltd.* (天津百得利投資有限公司) | July 13, 2009 | Second-hand automobile business |
| 4. Nanjing BetterLife Automobile Sales Co., Ltd.* (南京百得利汽車銷售有限公司) | May 28, 2012 | Sale and service of automobiles |
| 5. Shandong BetterLife Automobile Sales Co., Ltd.* (山東百得利汽車銷售有限公司) | November 25, 2011 | Sale and service of automobiles |
| 6. Hangzhou BetterLife Star Automobile Sales Co., Ltd.* (杭州百得利之星汽車銷售有限公司) | October 13, 2010 | Sale and service of automobiles |
| 7. Jinan Xiangpeng Depository Service Co., Ltd.* (濟南祥鵬倉儲服務有限公司) | November 22, 2011 | Holding of assets such as land and properties |

Note: Companies 4-7 above were incorporated after reorganization and transaction with Zhongsheng Group in 2010.

HISTORY AND REORGANIZATION

Group structure upon completion of the disposal of the Relevant Subsidiaries

Immediately after completion of registration at the SAIC on the disposal of the Relevant Subsidiaries according to the Zhongsheng Reorganization Agreement on August 18, 2016, the simplified company structure of our Group was as follows:



Notes:

(1) Details of PRC incorporated companies being a member of our Group at the relevant time are as follows:

| | Company | Date of incorporation | Place of incorporation | Principal Business |
|-----|-------------------------------|------------------------------|-------------------------------|---|
| 1. | Tianjin Guomao | April 2, 2001 | Tianjin | International trade activities and consultancy service |
| 2. | BetterLife Tianjin | August 30, 2007 | Tianjin | Corporate management |
| 3. | Tianjin BetterLife Auto | May 26, 2006 | Tianjin | Sale and service of automobiles (Porsche) |
| 4. | Beijing BetterLife Group | September 3, 1998 | Beijing | Sale and service of automobiles (Porsche) |
| 5. | Tianjin Liya | July 12, 2012 | Tianjin | Advertisement related businesses |
| 6. | Beijing Zhoushi | September 1, 2011 | Beijing | Investment holding and project management |
| 7. | Beijing BetterLife Used Auto | November 24, 2004 | Beijing | Brokerage of used automobiles |
| 8. | Beijing BetterLife Auto Trade | February 6, 2004 | Beijing | Sale and service of automobiles (Audi) |
| 9. | Beijing BetterLife Auto | April 14, 2008 | Beijing | Sale and service of automobiles (Porsche) |
| 10. | Beijing BetterLife Star | January 9, 2008 | Beijing | Sale and service of automobiles (Mercedes-Benz and Smart) |

HISTORY AND REORGANIZATION

| | Company | Date of incorporation | Place of incorporation | Principal Business |
|-----|--|------------------------------|-------------------------------|--|
| 11. | Beijing BetterLife International | December 9, 2011 | Beijing | Sale and service of automobiles (Audi) |
| 12. | Tianjin Laifutai | March 14, 2014 | Tianjin | Insurance service |
| 13. | Hangzhou BetterLife | August 18, 2010 | Hangzhou | Sale and service of automobiles (import Volkswagen) |
| 14. | Weifang BetterLife | November 2, 2011 | Weifang | Sale and service of automobiles (import Volkswagen) |
| 15. | Qingdao BetterLife Service | December 14, 2011 | Qingdao | Sale and service of automobiles (Bentley) |
| 16. | Tianjin BetterLife Automobile Sales Co., Ltd. (天津百得利汽車銷售有限公司) | October 21, 2005 | Tianjin | N/A <i>(Note: This company has ceased substantive business operation in 2013 and was de-registered on December 6, 2017 after voluntary winding-up process)</i> |
| 17. | Chengdu Jinbao ⁽²⁾ | January 8, 2014 | Chengdu | Sale and service of automobiles (Porsche) |
| 18. | Chengdu Xinbao ⁽³⁾ | March 30, 2012 | Chengdu | Sale and service of automobiles (Porsche) |

(2) Please refer to “History and Reorganization — Our Corporate History — (1) Shareholding and corporate changes of major subsidiaries of our Company — h. Chengdu Jinbao (成都百川金保汽車銷售服務有限公司)” for further information.

(3) Please refer to “History and Reorganization — Our Corporate History — (1) Shareholding and corporate changes of major subsidiaries of our Company — g. Chengdu Xinbao (成都百川新保汽車銷售服務有限公司)” for further information.

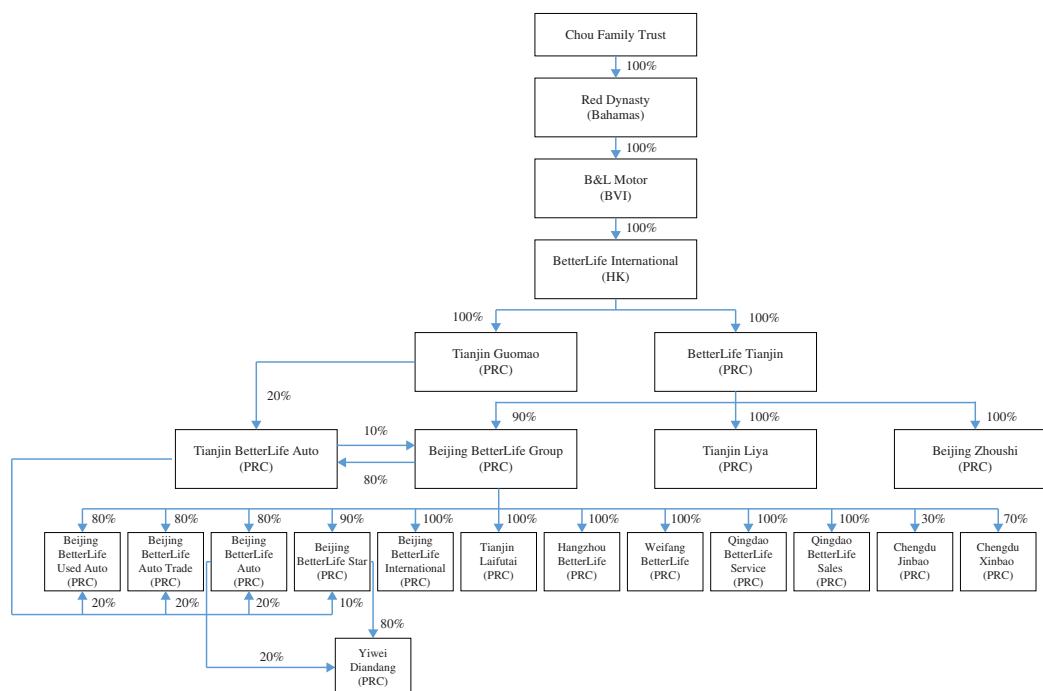
(4) Please refer to note 4 on page 150 for further information as to the cross-shareholding arrangement in our Group.

On October 5, 2017, Teal Orchid transferred a total of 100 shares of B&L Motor to Red Dynasty for nil consideration. After such transfer, B&L Motor was owned as to 100% by Red Dynasty.

HISTORY AND REORGANIZATION

CORPORATE REORGANIZATION

The corporate structure of our Group, immediately prior to the Corporate Reorganization, is set out below:



Notes:

- (1) From October 5, 2017 to its dissolution on August 12, 2020, B&L Motor was directly and solely owned by Red Dynasty, which in turn is legally owned by the trustee of the Chou Family Trust for the benefit of the beneficiaries thereunder. The Chou Family Trust was established in Singapore on October 13, 2010. Since its establishment, the trustee has been Credit Suisse Trust Limited, settlor/asset contributor has been Mr. Chou and the possible beneficiaries have been Mr. Chou and his family members.
- (2) B&L Motor was and BetterLife International has been principally engaged in investment holding activities.
- (3) Details of PRC incorporated companies being a member of our Group at the relevant time are as follows:

| No. | Entity | Date of incorporation | Place of incorporation | Principal businesses |
|-----|-------------------------------|-----------------------|------------------------|--|
| 1. | Tianjin Guomao | April 2, 2001 | Tianjin | International trade activities and consultancy service |
| 2. | BetterLife Tianjin | August 30, 2007 | Tianjin | Corporate management |
| 3. | Tianjin BetterLife Auto | May 26, 2006 | Tianjin | Sale and service of automobiles (Porsche) |
| 4. | Beijing BetterLife Group | September 3, 1998 | Beijing | Sale and service of automobiles (Porsche) |
| 5. | Tianjin Liya | July 12, 2012 | Tianjin | Advertisement related businesses |
| 6. | Beijing Zhoushi | September 1, 2011 | Beijing | Investment holding and project management |
| 7. | Beijing BetterLife Used Auto | November 24, 2004 | Beijing | Brokerage of used automobiles |
| 8. | Beijing BetterLife Auto Trade | February 6, 2004 | Beijing | Sale and service of automobiles (Audi) |

HISTORY AND REORGANIZATION

| No. | Entity | Date of incorporation | Place of incorporation | Principal businesses |
|-----|----------------------------------|-----------------------|------------------------|--|
| 9. | Beijing BetterLife Auto | April 14, 2008 | Beijing | Sale and service of automobiles (Porsche) |
| 10. | Beijing BetterLife Star | January 9, 2008 | Beijing | Sale and service of automobiles (Mercedes-Benz) |
| 11. | Beijing BetterLife International | December 9, 2011 | Beijing | Sale and service of automobiles (Audi) |
| 12. | Tianjin Laifutai | March 14, 2014 | Tianjin | Insurance service |
| 13. | Hangzhou BetterLife | August 18, 2010 | Hangzhou | Sale and service of automobiles (import Volkswagen) |
| 14. | Weifang BetterLife | November 2, 2011 | Weifang | Sale and service of automobiles (import Volkswagen) |
| 15. | Qingdao BetterLife Service | December 14, 2011 | Qingdao | Sale and service of automobiles (Bentley) |
| 16. | Qingdao BetterLife Sales | May 9, 2011 | Qingdao | Sale and service of automobiles (import Volkswagen) |
| 17. | Chengdu Jinbao ⁽⁴⁾ | January 8, 2014 | Chengdu | Sale and service of automobiles (Porsche) |
| 18. | Chengdu Xinbao ⁽⁵⁾ | March 30, 2012 | Chengdu | Sale and service of automobiles (Porsche) |
| 19. | Yiwei Diandang | August 7, 2017 | Beijing | Providing pawn loan services to customers with personal or other property mortgage |

(4) Please refer to note 2 on page 155 for further details of Chengdu Jinbao.

(5) Please refer to note 3 on page 155 for further details of Chengdu Xinbao.

In preparation for the Listing, our Group underwent the Corporate Reorganization which involved the following steps:

1. Incorporation of our Company

On May 18, 2018, our Company was incorporated under the laws of the Cayman Islands as an exempted company. Our Company will act as the ultimate holding company of the proposed listed group.

As at the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On May 18, 2018, one share issued at par held by Mr. Craig Fulton, the initial subscriber of our Company, was transferred to Chou Dynasty at par value.

2. Acquisition of BetterLife International by our Company

On March 22, 2019, our Company acquired all 10,000 shares of BetterLife International from B&L Motor for nil consideration and became the sole shareholder of BetterLife International, which is a holding company holding direct and indirect interest of our Group's

HISTORY AND REORGANIZATION

subsidiaries in the PRC. Please refer to “Our Corporate History — (2) Reorganization and transactions with Zhongsheng Group in 2010” in this section for further information regarding BetterLife International and B&L Motor.

3. Disposal of Beijing Zhoushi

Beijing Zhoushi was established in the PRC on September 1, 2011. As at November 6, 2018, its registered capital was RMB350 million, which was entirely held by BetterLife Tianjin.

On November 6, 2018, BetterLife Tianjin transferred 1% of its equity interest in Beijing Zhoushi to Chou International Investment Co., Limited (周氏國際投資有限公司) (“Chou International Investment”) for RMB4.56 million. The consideration for the transaction was settled on January 11, 2019. On December 20, 2018, BetterLife Tianjin further transferred 76.7% and 22.3% of its equity interests in Beijing Zhoushi to Chou International Investment and Tianjin Happy International Trading Co., Ltd.* (天津哈哈樂國際貿易有限公司) (“Happy Trading”) for a consideration of RMB289 million and RMB84 million, respectively. The consideration for the transaction was confirmed to be settled on December 24, 2018 by way of set-off involving (among others) the consideration payable by our Group for acquiring 20% equity interests in Tianjin BetterLife Auto from Tianjin Guomao and the consideration payable by our Group to Mr. Chou and Mr. Chou Wanghan for the transfers of their interests in Tianjin Guomao and BetterLife Tianjin to BetterLife International in 2010. The consideration for the above transactions was determined primarily based on the asset appraisal report prepared by an independent third party valuer and registered capital of Beijing Zhoushi. At the material time, each of Chou International Investment and Happy Trading was ultimately and beneficially owned as to 100% by Mr. Chou.

Beijing Zhoushi was not included in our Group for streamlining our Group’s structure as Beijing Zhoushi is not engaged in the same business as our Group.

4. Disposal of Tianjin Guomao

Tianjin Guomao was established in the PRC on April 2, 2001. As at December 7, 2018, its registered capital was USD7,060,000, which was entirely held by BetterLife International.

Pursuant to an equity transfer agreement dated November 15, 2018, Tianjin Guomao’s 20% interest in Tianjin BetterLife Auto was transferred to BetterLife Tianjin. Tianjin Guomao ceased to hold any equity interest in Tianjin BetterLife Auto as a result. The consideration for the transaction was RMB84 million which was confirmed to be settled on December 24, 2018 after setting off the amounts payable by Happy Trading for acquiring 22.3% equity interests in Beijing Zhoushi from BetterLife Tianjin. The consideration was determined primarily based on the asset value of Tianjin BetterLife Auto assessed by the relevant valuation report.

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On December 7, 2018, BetterLife International transferred 100% of equity interests in Tianjin Guomao to Chou International Investment for nil consideration as this was solely conducted as part of the Corporate Reorganization plan and our PRC Legal Advisor has also confirmed that this did not violate the relevant PRC law.

Tianjin Guomao was not included in our Group for streamlining our Group's structure as Tianjin Guomao is not engaged in the same business as our Group.

5. Deregistration of Yiwei Diandang

Yiwei Diandang was established in the PRC on August 7, 2017. Immediately prior to the deregistration, its registered capital was RMB50 million, of which 20% was held by Beijing BetterLife Auto while 80% was held by Beijing BetterLife Star. With a view to focus on our major business, Yiwei Diandang (which was primarily engaged in the business of providing pawn loan services to customers with personal or other property mortgage) was deregistered on January 12, 2021.

6. Disposal of Tianjin Laifutai

Tianjin Laifutai was established in the PRC on March 14, 2014. Immediately prior to the disposal, its registered capital was RMB50 million, all of which was held by Beijing BetterLife Group. Pursuant to an equity transfer agreement dated October 1, 2020, Beijing BetterLife Group disposed of 100% of equity interests in Tianjin Laifutai to Beijing Jiacheng Runjing Auto Sales and Services Ltd.* (北京嘉程潤景汽車銷售服務有限公司) (“Jiacheng Runjing”), an Independent Third Party, for a consideration of RMB50 million, which was determined based on the registered capital of Tianjin Laifutai and shall be paid by three installments. According to the said equity transfer agreement, the first and second installment of RMB5 million and RMB40 million were paid by Jiacheng Runjing to Beijing BetterLife Group by November 2, 2020 and November 9, 2020, respectively. The registration of the equity transfer was completed on November 2, 2020. The remaining consideration RMB5 million shall be paid by Jiacheng Runjing to Beijing BetterLife Group by October 31, 2021 pursuant to such agreement.

Tianjin Laifutai (which was primarily engaged in the business of insurance service, including vehicle related insurance) was not included into our Group as we focus on our major business of operating 4S dealership stores.

7. Disposal of Qingdao BetterLife Sales

Qingdao BetterLife Sales was established in the PRC on May 9, 2011 with a registered capital of RMB38,114,300, which was solely held by Beijing BetterLife Group immediately prior to the disposal.

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Pursuant to an equity transfer agreement dated December 1, 2020, Beijing BetterLife Group transferred 75%, 15% and 10% interest in Qingdao BetterLife Sales to Dalian Dachang Hezhong Auto Sales and Services Co., Ltd.* (大連大昌合眾汽車銷售服務有限公司) (“Dalian Dachang”), Mr. Xu Wengang (徐文剛) and Ms. Zhang Lijuan (張俐娟) respectively. At the material time, each of the transferee was an Independent Third Party. The aggregate consideration for the disposal was approximately RMB17.34 million, which was determined with reference to the net asset value and the value of intangible assets of Qingdao BetterLife Sales. Each transferee shall pay the agreed consideration on a pro-rata basis and the consideration was fully settled on December 25, 2020. The registration of transfer in the interest of Qingdao BetterLife Sales was completed on December 14, 2020.

Qingdao BetterLife Sales was not included in our Group as we focus on our operations of 4S dealership stores on luxury and ultra-luxury brands while Qingdao BetterLife Sales operated 4S dealership stores for imported Volkswagen, which is a medium-level brand, in Qingdao.

8. Disposal of assets in Weifang BetterLife

With a view to focusing on our operations of 4S dealership stores on luxury and ultra-luxury brands, Weifang BetterLife (which operated 4S dealership stores for imported Volkswagen, which is a medium-level brand, in Weifang) entered into the following arrangement. On December 1, 2020, Weifang BetterLife established a wholly-owned subsidiary, Weifang BetterLife Auto Sales and Services Co., Ltd.* (濰坊百得利汽車銷售服務有限公司) (“Weifang BetterLife Auto”) with a registered capital of RMB5 million. Weifang BetterLife injected certain operating assets (including office tools and equipment and furniture) of RMB3,732,398 into Weifang BetterLife Auto as paid-in capital.

On December 11, 2020, Weifang BetterLife entered into an equity transfer agreement with Dalian Dachang, Mr. Xu Wengang and Ms. Zhang Lijuan, pursuant to which Weifang BetterLife transferred 75%, 15% and 10% interest in Weifang BetterLife Auto to Dalian Dachang, Mr. Xu and Ms. Zhang, respectively. The aggregate consideration for the transfer is RMB3,732,398 which was determined with reference to the book value of the paid-in capital of Weifang BetterLife Auto. Each transferee shall pay the agreed consideration on a pro-rata basis. The relevant consideration as fully settled on December 15, 2020 and the registration of transfer in the interest of Weifang BetterLife Auto was completed on December 17, 2020.

COMPLIANCE WITH PRC LAWS AND REGULATIONS

As confirmed by our Directors, prior to the disposals and deregistration under the Corporate Reorganization, each of the disposed and deregistered companies had complied with the applicable laws and regulations in all material respects, and had not been involved in any material legal, regulatory, arbitral or administrative proceedings, investigations or claims before such disposals and deregistrations. As confirmed by our Company and according to the public information inquiry conducted by our PRC Legal Advisor, each of the disposed and

HISTORY AND REORGANIZATION

deregistered companies was not subject to any material non-compliance during the Track Record Period and prior to the disposal or deregistration or any pending administrative fine involving material non-compliance with the relevant and applicable PRC laws and regulations.

Our PRC Legal Advisor has confirmed that the transactions under the Zhongsheng Reorganization Agreement and the Corporate Reorganization were legally completed in accordance with the relevant PRC laws and regulations in all material respects and there are no other governmental approvals required under the PRC laws and regulations for such transactions.

ACQUISITION OF LAIFU AUTO

On October 1, 2020, BetterLife Tianjin entered into an equity transfer agreement with Guangshun Automobile and Mr. Sun Zi'an (孫子安), the legal representative and beneficial owner of Guangshun Automobile, to acquire 90% of equity interests held by Guangshun Automobile in Laifu Auto. Pursuant to the equity transfer agreement, Guangshun Automobile shall procure, among others, the transfer of authorized dealership with Jaguar-Land Rover in Foshan, Guangdong province to Laifu Auto and the obtaining of licenses and conditions required for the operation of 4S dealership store for Jaguar-Land Rover in Foshan. The consideration paid for the above transfer of equity interests was approximately RMB45 million which was determined on an arm's length basis and primarily based on Laifu Auto's net asset value, customer base and authorized dealership from Jaguar-Land Rover, and adjusted by cash contributions that have been made in Guangshun Automobile. Laifu Auto entered into the new authorized dealership with Jaguar-Land Rover on December 21, 2020.

The registration of the equity transfer was completed on December 14, 2020; and the consideration was fully paid and settled on December 21, 2020. According to the equity transfer agreement and following the completion of the equity transfer, BetterLife Tianjin and Guangshun Automobile hold 90% and 10% interest in Laifu Auto, respectively and BetterLife Tianjin has the sole control of the management and daily operations of Laifu Auto. Each of Guangshun Automobile and Mr. Sun was an Independent Third Party immediately before the above transaction.

Our Group acquired Laifu Auto to expand the Jaguar-Land Rover brand sales network and establish itself as a strategic partner of the Jaguar-Land Rover brand in the Chinese market. This acquisition also allowed us to reach consumers in Foshan, one of the tier-one cities, which has an increasing demand of luxury brand vehicles.

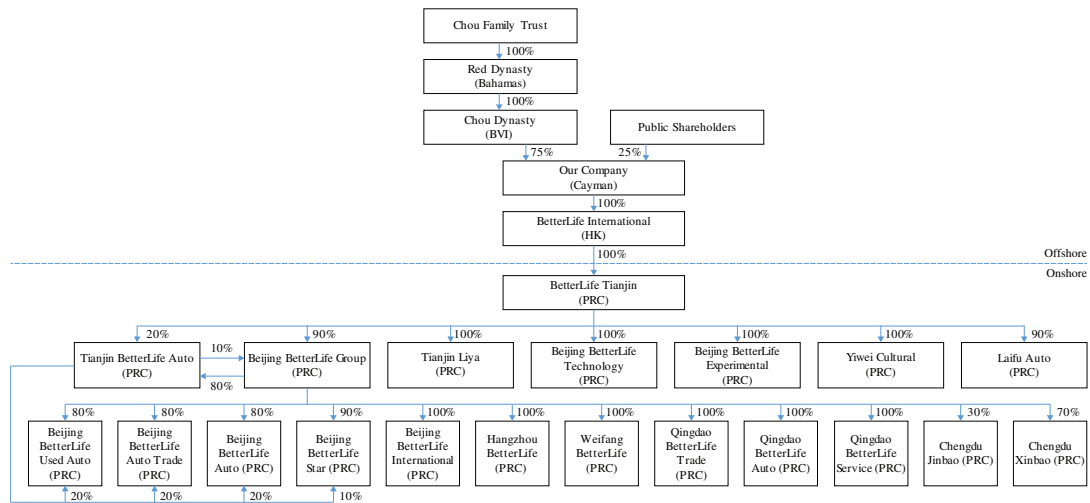
HISTORY AND REORGANIZATION

SHAREHOLDING STRUCTURE UPON COMPLETION OF THE GLOBAL OFFERING

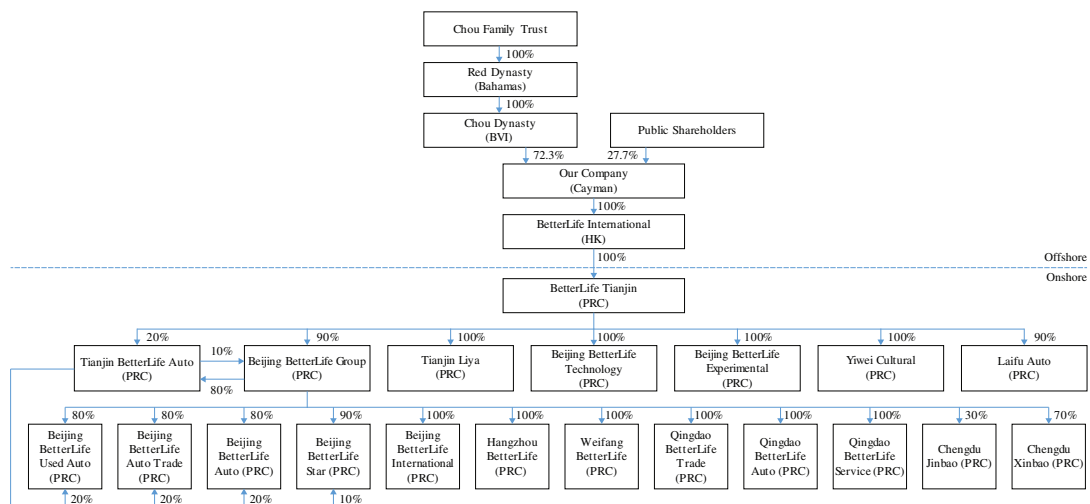
Pursuant to the Global Offering, new Shares representing 25% of the enlarged issued share capital of our Company will be issued to the public.

Conditional on the share premium account of our Company being credited as a result of the Global Offering, the sum of HK\$4,499,999.99 will be capitalised and apply in paying up in full at par 449,999,999 Shares for allotment and issue to Chou Dynasty (the “Capitalization Issue”). Such Shares to be allotted and issued shall rank pari passu in all respects with the then existing issued Shares of our Company.

The corporate structure of the Group immediately after the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) is as set out below:



The corporate structure of the Group immediately after the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is exercised in full) is as set out below:



HISTORY AND REORGANIZATION

Notes:

(1) Details of PRC incorporated companies being a member of our Group are as follows:

| No. | Entity | Date of incorporation | Place of incorporation | Registered capital | Principal businesses |
|-----|----------------------------------|-----------------------|------------------------|--------------------|---|
| 1. | BetterLife Tianjin | August 30, 2007 | Tianjin | RMB303,320,000 | Corporate management, sale and service of automobiles (Porsche) |
| 2. | Tianjin BetterLife Auto | May 26, 2006 | Tianjin | RMB10,000,000 | Sale and service of automobiles |
| 3. | Beijing BetterLife Group | September 3, 1998 | Beijing | RMB60,000,000 | Sale and service of automobiles (Porsche) |
| 4. | Tianjin Liya | July 12, 2012 | Tianjin | RMB1,000,000 | Advertisement related businesses |
| 5. | Beijing BetterLife Technology | September 3, 2018 | Beijing | RMB30,000,000 | <i>No substantive business yet</i> |
| 6. | Beijing BetterLife Experimental | August 16, 2018 | Beijing | RMB20,000,000 | Sale and service of automobiles (Volvo) |
| 7. | Yiwei Cultural | December 21, 2016 | Beijing | RMB13,717,610 | Sale of automobile accessories |
| 8. | Laifu Auto | September 11, 2020 | Foshan | RMB15,000,000 | Sale and service of automobiles (Jaguar-Land Rover) |
| 9. | Beijing BetterLife Used Auto | November 24, 2004 | Beijing | RMB100,000 | Brokerage of used automobiles |
| 10. | Beijing BetterLife Auto Trade | February 6, 2004 | Beijing | RMB20,000,000 | Sale and service of automobiles (Audi) |
| 11. | Beijing BetterLife Auto | April 14, 2008 | Beijing | RMB20,000,000 | Sale and service of automobiles (Porsche) |
| 12. | Beijing BetterLife Star | January 9, 2008 | Beijing | RMB40,000,000 | Sale and service of automobiles (Mercedes-Benz) |
| 13. | Beijing BetterLife International | December 9, 2011 | Beijing | RMB80,000,000 | Sale and service of automobiles (Audi) |
| 14. | Hangzhou BetterLife | August 18, 2010 | Hangzhou | RMB30,000,000 | Sale and service of automobiles (Jaguar-Land Rover) |
| 15. | Weifang BetterLife | November 2, 2011 | Weifang | RMB103,000,000 | Sale and service of automobiles |
| 16. | Qingdao BetterLife Trade | October 17, 2019 | Qingdao | RMB10,000,000 | Sale and service of automobiles |
| 17. | Qingdao BetterLife Auto | December 9, 2019 | Qingdao | RMB10,000,000 | Sale and service of automobiles (Bentley) |
| 18. | Qingdao BetterLife Service | December 14, 2011 | Qingdao | RMB93,835,000 | Sale and service of automobiles |
| 19. | Chengdu Jinbao ⁽²⁾ | January 8, 2014 | Chengdu | RMB33,333,333.33 | Sale and service of automobiles (Porsche) |
| 20. | Chengdu Xinbao ⁽³⁾ | March 30, 2012 | Chengdu | RMB33,333,333.33 | Sale and service of automobiles (Porsche) |

(2) Please refer to note 2 on page 155 for further details of Chengdu Jinbao.

(3) Please refer to note 3 on page 155 for further details of Chengdu Xinbao.

(4) Please refer to note 4 on page 150 for further information as to the cross-shareholding arrangement in our Group.

OVERVIEW

We are an automobile dealership service provider in China focusing on luxury and ultra-luxury brands. We ranked sixth among all ultra-luxury brand automobile dealership service providers in China as measured by revenue generated for the year ended December 31, 2020 with a market share of approximately 4.0%, according to the Frost & Sullivan Report. Passenger vehicle brands are categorized into four segments, namely ultra-luxury, luxury, medium-level and entry-level. See “Industry Overview — Overview of Passenger Vehicle Market in China — Market Segmentation” in this prospectus for details. The market share of ultra-luxury brand automobiles was approximately 2.9% within the automobile dealership industry in China in terms of revenue generated in 2020. As of the Latest Practicable Date, we operated 12 4S dealership stores for the brands of Porsche, Audi, Mercedes-Benz, Bentley, Volvo and Jaguar-Land Rover across six provinces and municipalities in China, namely Beijing, Tianjin, Shandong, Sichuan, Zhejiang and Guangdong. According to the Frost & Sullivan Report, these six provinces and municipalities were all among the top ten provincial-level regions in China in terms of the number of high-net-worth individuals in 2020, and had shown strong purchase power and demand for luxury and ultra-luxury automobiles.

We offer a comprehensive range of automobile-related products and services, including (i) sale of automobiles consisting of imported and domestically manufactured petroleum models. For the years ended December 31, 2018, 2019 and 2020, we sold a total of 14,113, 13,233 and 13,480 automobiles, respectively, among which approximately 60.0%, 58.4% and 55.7% were imported models, and approximately 40.0%, 41.6% and 44.3% were domestically manufactured models. During the Track Record Period, we also sold certain new energy vehicle models for Audi, Porsche, imported Volkswagen, JAC Volkswagen-Sihao and Volvo. For the years ended December 31, 2018, 2019 and 2020, the total number of new energy vehicles (including plug-in hybrid electric models and pure electric models) sold by our Group was 152, 664 and 635, respectively, which we consider insignificant to our dealership business as a whole; and (ii) after-sales services, which consist of repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and automobile license plate registration services. According to the Frost & Sullivan Report, both plug-in hybrid electric model and pure electric model are categorized as new energy vehicles under industry practice. We also provide other automobile-related value-added services to customers, such as automobile financing and pre-owned automobile brokerage services. We believe that our broad range of services allow us to build and maintain long-term relationships with our customers and establish a variety of revenue streams. Unlike direct sales outlets of automobile manufacturers, repair shops and spare parts retail centers, which only provide limited services to customers, our 4S dealership stores provide a full spectrum of automobile-related services from sales to after-sales services which cover the whole value chain in the automobile industry. By continuing to enhance customer satisfaction, we aim to become a one-stop provider of automobile products and services for our customers.

BUSINESS

In 2000, we opened our first dealership store for Audi in Beijing and became one of the first dealers of Audi in China. In 2003, we opened our first dealership store for Porsche in Beijing, which was also the first Porsche 3S dealership store in China. Our success in the luxury and ultra-luxury brand automobile dealership segment is grounded in our in-depth understanding of the needs of luxury and ultra-luxury brand automobile purchasers, our effective marketing towards this group of customers and the high quality services we provide. We have established advanced information technology systems in our headquarters and across our 4S dealership stores as a uniform digital platform which integrates data and information relating to our customers and automobile brands. In 2016, we completed the roll-out of our ERP system, which maintains in one database the information needed for a variety of business functions, such as inventory, financial and human resources management. In addition to helping customers choose their preferred automobile models, we follow up with each customer and provide them with other after-sales and value-added services throughout the life cycle of their automobiles, including repair and maintenance, insurance and trading of used cars, in order to maintain customer relationships and cultivate further business opportunities.

Our revenue decreased from RMB8,409.2 million for the year ended December 31, 2018 to RMB8,178.8 million for the year ended December 31, 2019 primarily because revenue generated from our sales of automobiles decreased from RMB7,346.8 million for the year ended December 31, 2018 to RMB7,069.3 million for the year ended December 31, 2019. Our revenue increased from RMB8,178.8 million for the year ended December 31, 2019 to RMB8,533.1 million for the year ended December 31, 2020 primarily because revenue generated from our sales of automobiles increased from RMB7,069.3 million for the year ended December 31, 2019 to RMB7,462.5 million for the year ended December 31, 2020. Our net profit decreased from RMB270.2 million for the year ended December 31, 2018 to RMB224.9 million for the year ended December 31, 2019. Our net profit increased from RMB224.9 million for the year ended December 31, 2019 to RMB306.5 million for the year ended December 31, 2020. Our Adjusted Net Profit, which was prepared based on non-IFRS measures, increased by 3.3% from RMB218.3 million for the year ended December 31, 2018 to RMB225.5 million for the year ended December 31, 2019. Our Adjusted Net Profit, which was prepared based on non-IFRS measures, increased by 45.9% from RMB225.5 million for the year ended December 31, 2019 to RMB329.0 million for the year ended December 31, 2020.

Competitive Landscape of the Automobile Industry in the PRC

We believe the evolving regulatory environment, the new energy vehicle business and the fierce competition of the automobile industry in the PRC will continue to affect our business operations and prospects.

The evolving regulatory environment

The automobile industry in the PRC is regulated by a series of laws, regulations or policies promulgated by relevant government authorities, including: (i) the Policy on Development of Automotive Industry (汽車產業發展政策) promulgated on May 21, 2004 and amended on August 15, 2009; (ii) the Guidance Opinion on Promoting the Development of Automobile Circulation Industry under Twelfth Five-Year Plan (關於促進汽車流通業“十二五”發展的指導意見) promulgated on December 22, 2011; (iii) the Medium and Long Term Development Planning of Automotive Industry (汽車產業中長期發展規劃) promulgated on April 6, 2017; (iv) the Measures for the Administration of Automobile Sales (汽車銷售管理辦法) promulgated on April 5, 2017; and (v) the Administration of Automobile Maintenance and Repair (機動車維修管理規定) promulgated on June 24, 2005, and amended on August 8, 2015, April 19, 2016 and June 21, 2019.

Specifically, there are some significant regulatory requirements in the PRC that may affect our business operations and financial performance, including, but not limited to:

- **Emission requirements of automobiles:** Many of China’s cities have had air quality issues over recent years. China is the world’s largest automobile market and vehicle emissions have been a major source of pollution. As such, the PRC government is tackling the problem and significantly improving air quality by introducing and upgrading a series of emission standards for vehicles. The final version of the China Six Standard was jointly released by MEE and the General Administration of Quality, Supervision, Inspection and Quarantine on December 23, 2016. See “Risk Factors — Risks Relating to Our Business — Our revenue declined during the Track Record Period primarily due to the decrease in sales volume of automobiles, and our prospects are dependent on various factors, including but not limited to achieving revenue growth and our ability to cope with the fierce market competition from different market players” and “Regulatory Overview — Regulations Relating to Vehicle Emission Standards in China” in this prospectus for details.
- **Restrictions on automobile ownership:** As advised by our PRC Legal Advisor, the local government of certain cities where we have business operations, such as Beijing, Tianjin and Hangzhou, have implemented various regulations to restrict car ownership or limit the number of vehicles registered each year. For details, see “Risk Factors — Risks Relating to Our Business — Limits imposed by the PRC government on the purchase of new automobiles may adversely affect our business and results of operations” and “Regulatory Overview — Regulations Relating to Sales of New Automobiles — Regulations Relating to Adjusting and Controlling the Quantity of Vehicles” in this prospectus.

The new energy vehicles business in the PRC

China is the largest passenger vehicle market in the world, as measured by sales volume in 2020, according to the Frost & Sullivan Report. Driven by growing disposable income, increasing urbanization and investment in transportation infrastructure, the sales volume of passenger vehicles in China reached 21.2 million units in 2020. In the past few years, new energy vehicle market in China also experienced rapid growth, which was primarily driven by technology innovation, favorable government policies, the rising awareness of air pollution and large-scale investments in this market. The PRC government has promulgated a series of favorable policies to promote the electric vehicle market. For example, pursuant to the Development Plan on New Energy Vehicle Industry (2021-2035) (新能源汽車產業發展規劃(2021-2035年)) released by the General Office of State Council in October 2020, the sales volume of electric vehicles is expected to represent approximately 20.0% of the total sales volume of new passenger vehicles in China in 2025. It is not a mandatory requirement but a direction for the development of the passenger vehicle market in China. In addition, a series of laws and regulations in the PRC stipulated subsidies for new energy vehicles, including (i) the Circular on Financial Support Policies on the Promotion and Application of New Energy Vehicles (2016-2020) (關於2016–2020年新能源汽車推廣應用財政支持政策的通知) issued on April 22, 2015; (ii) the Circular on Adjusting the Fiscal Subsidy Policies to Promote the Use of New-Energy Vehicles (關於調整新能源汽車推廣應用財政補貼政策的通知) issued on December 29, 2016; (iii) the Circular on Adjusting and Improving the Fiscal Subsidy Policies to Promote the Use of New-Energy Vehicles (關於調整完善新能源汽車推廣應用財政補貼政策的通知) issued on February 12, 2018; (iv) the Circular on Further Improving the Fiscal Subsidy Policies to Promote the Use of New-Energy Vehicles (關於進一步完善新能源汽車推廣應用財政補貼政策的通知) issued on March 26, 2019; and (v) the Circular on Improving the Fiscal Subsidy Policies to Promote the Use of New-Energy Vehicles (關於完善新能源汽車推廣應用財政補貼政策的通知) issued on April 23, 2020. According to the Frost & Sullivan Report, the sales volume of new energy vehicles in China increased from 0.1 million units in 2014 to 1.2 million units in 2020, representing a CAGR of 51.3%. The sales volume of new energy vehicles in China is expected to grow at a CAGR of 31.4% from 2020 to 2025, reaching 4.7 million units in 2025. The penetration rate of new energy vehicles also increased significantly from 0.5% in 2014 to 5.7% in 2020 and is forecasted to continue to grow and reach 18.1% in 2025, according to the Frost & Sullivan Report.

According to the Frost & Sullivan Report, as the new energy vehicle market is still young, the market is divided into two segments, (i) entry and medium; and (ii) luxury and ultra-luxury. The market share of the luxury and ultra-luxury segment in the new energy vehicle market is 16.7% in 2020 and will continue to grow and reach 19.1% in 2025. Other than emerging luxury electric vehicle manufacturers such as Tesla, NIO and Lixiang, the luxury and ultra-luxury segment of the new energy vehicle market is made up of traditional luxury and ultra-luxury petroleum automobile manufacturers which produce electric vehicles. Given the increasing market demand and penetration rate of new energy vehicles in China, traditional luxury and ultra-luxury petroleum automobile manufacturers compete with manufacturers that produce solely luxury electric vehicles, such as Tesla, NIO and Lixiang. According to Frost & Sullivan Report, the market share of Tesla, NIO and Lixiang in terms of sales volume in the luxury and ultra-luxury segment of the passenger vehicle market in China was approximately 6.2% in 2020. However, tightening automobile emission regulations and license plate restrictions may limit the growth of the number of petroleum automobiles on the road and accelerate the adoption of new energy vehicles. For risks associated with the development of new energy vehicle market, see “Risk Factors — Risks Relating to Our Business — The rapid growth of new energy automobile market could restrict the supply of and reduce the demand for gasoline-powered automobiles in China” in this prospectus.

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In the face of the development of the new energy vehicle market in China, a growing number of traditional petroleum automobile manufacturers are seeking to develop and launch their own new energy vehicle models to capture the trend of automobile electrification in the next few years. According to the Frost & Sullivan Report, almost all of the luxury and ultra-luxury automobile manufacturers are transforming towards electric vehicles in the next five to 10 years.

The table below sets forth details regarding the strategies to be implemented by the major luxury and ultra-luxury automobile manufacturers and their existing new energy vehicle models, according to the Frost & Sullivan Report:

| Brands | New Energy Vehicle Models Launched by the Manufacturers | Electrification Strategies |
|-------------------|---|---|
| Porsche | Taycan, Taycan 4S, Taycan Turbo, Taycan Turbo S, Cayenne S E-Hybrid, Cayenne E-Hybrid, Panamera 4 E-Hybrid | Porsche is committed to having 50.0% of electric vehicles by 2025. The next generation of Porsche Macan is expected to be fully electrified. |
| Audi | e-tron, e-tron Sportback, Q2L e-tron, e-tron GT quattro, RS e-tron GT | Audi aims to have 30 electric models on sale worldwide by 2025. By 2025, the sales volume of electric models is expected to represent approximately 40.0% of its total sales volume of new automobiles. |
| Mercedes-Benz | EQA, EQB, EQC, EQS, E-Class PHEV, GLE PHEV, GLE Sport PHEV | Mercedes-Benz plans to expand the electrified portfolio and expects the sales volume of electrified models to represent more than 50.0% of its global sales volume by 2030. |
| Bentley | NA | Bentley plans to launch its first new energy vehicle model in 2025 and go fully electric by 2030. |
| Volvo | XC40 RECHARGE, C40 RECHARGE, S60 RECHARGE, S90 RECHARGE, XC60 RECHARGE, XC90 RECHARGE | 50.0% of the sales volume of Volvo is expected to be electric vehicles by 2025. Volvo may switch to solely produce electric vehicles by 2030. |
| Jaguar-Land Rover | Rover Sport PHEV, Discovery Sport PHEV | Land Rover will release its first electric model in 2024 and the sales volume of electric vehicles is expected to represent approximately 60.0% of the total sales volume of Land Rover by 2030. All models produced by Jaguar will be entirely electric by 2025. |

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In addition, driven by increases in both the number of high-net-worth individuals in China and the purchasing power of Chinese residents, the sales volume of luxury and ultra-luxury passenger vehicles in China is expected to grow at a CAGR of 10.2% and 3.3% from 2020 to 2025, respectively, and reach 5.7 million units and 118.4 thousand units in 2025, respectively. We believe this has demonstrated the growth potential of our business operations. According to the 2021 Report on the Work of the Government issued by the National People's Congress (第十三屆全國人民代表大會第四次會議) in March 2021, promoting the consumption of passenger vehicles has been listed as one of the key tasks of the PRC government in 2021 as part of the efforts to stimulate domestic demand and consumption. As of the Latest Practicable Date, the PRC government has not promulgated any detailed implementation measure to stimulate the consumption of passenger vehicles, especially the luxury and ultra-luxury brands.

The fierce competition in the automobile market of the PRC

According to the Frost & Sullivan Report, in 2020 there were approximately 30,000 passenger vehicle dealers in China, among which approximately 10,000 were luxury and ultra-luxury passenger vehicle dealers. These dealers include both authorized dealers and secondary dealers who are agents of authorized dealers. Revenue generated by the top five passenger vehicle dealership groups in 2020 accounted for approximately 12.2% of the total revenue generated by the market for the same year. The market share of our Group was approximately 0.2% in terms of revenue generated from sales of new automobiles in the passenger vehicle dealership market in 2020. In addition, revenue generated by the top five luxury and ultra-luxury passenger vehicle dealership groups in 2020 accounted for approximately 24.2% of the total revenue generated by the market for the same year. The market share of our Group in terms of revenue generated from sales of new automobiles in the luxury and ultra-luxury passenger vehicle dealership market in 2020 was approximately 0.5%.

According to the Frost & Sullivan Report, the dealership market of ultra-luxury passenger vehicles in China is fragmented. Revenue generated from sales of new ultra-luxury passenger vehicles of the top ten market players accounted for approximately 45.6% of the total market in 2020. Revenue generated by sales of ultra-luxury passenger vehicles in 2020 represented approximately 2.9% of the total revenue generated by the whole passenger vehicle sales market in China for the same year. We generated revenue of approximately RMB4.1 billion in 2020 from the sales of new ultra-luxury passenger vehicles, accounting for approximately 4.0% of the total revenue generated by the market. We ranked sixth in terms of revenue generated from the sale of new ultra-luxury passenger vehicles in 2020 among all market players in the ultra-luxury passenger vehicle dealership market in China. We ranked first in terms of average single store revenue for the year ended December 31, 2020 compared with the top ten corporate groups principally engaged in the ultra-luxury brand 4S dealership store business in China, according to the Frost & Sullivan Report.

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In addition, we plan to expand our network by operating new dealership stores in Beijing, Shanghai and Zhuhai and acquiring other 4S dealership stores that operate luxury and ultra-luxury brands in cities including Beijing, Nanjing and Suzhou. Driven by the increasing demand for luxury and ultra-luxury automobiles, the number of automobile dealership stores for luxury and ultra-luxury brands is expected to grow in the future, according to the Frost & Sullivan Report. The table below sets forth the number of existing dealership stores of the brands that we currently operate, as well as certain competing brands in the luxury and ultra-luxury segments, such as BMW and Rolls-Royce, in tier-one and tier-two cities in China as of April 30, 2021, according to the Frost & Sullivan Report:

| Brands | Number of Existing Dealership Stores |
|-----------------------------|---|
| Porsche | 106 |
| Bentley | 40 |
| Mercedes-Benz | 486 |
| Audi | 393 |
| Volvo | 173 |
| Jaguar-Land Rover | 159 |
| BMW | 355 |
| Rolls-Royce | 25 |
| Total | 1,737 |

The table below sets forth the number of existing dealership stores in Beijing, Shanghai and Zhuhai for the brands of dealership stores we intend to establish and the competing brands based on the Frost & Sullivan Report as of April 30, 2021:

| | Mercedes-Benz | Bentley | Jaguar-Land Rover | Audi | Porsche | BMW | Rolls-Royce | Volvo |
|--------------------|---------------|---------|-------------------|------|---------|-----|-------------|-------|
| Beijing | 34 | 2 | 12 | 30 | 5 | 26 | 2 | 12 |
| Shanghai | 31 | 2 | 11 | 26 | 5 | 25 | 2 | 11 |
| Zhuhai | 4 | 0 | 0 | 2 | 3 | 4 | 0 | 1 |
| Total | 69 | 4 | 23 | 58 | 13 | 55 | 4 | 24 |

According to the Frost & Sullivan Report: (i) the competition in the luxury brand market in Beijing and Shanghai is relatively intense in view that there are more than 10 dealership stores in Beijing and Shanghai for the luxury brands above; and (ii) the competition in the ultra-luxury brand market in Beijing, Shanghai and Zhuhai is relatively less intense in view that there are less than 10 dealership stores in each city for the ultra-luxury brands above.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and will continue to distinguish us from our competitors in the future:

We are a leading provider of automobile dealership services in the ultra-luxury brand automobile market in China

We are an automobile dealership service provider in China focusing on luxury and ultra-luxury brands. We ranked sixth among all ultra-luxury brand automobile dealership service providers in China as measured by revenue generated for the year ended December 31, 2020 with a market share of approximately 4.0%, according to the Frost & Sullivan Report. All of our stores are strategically located near commercial centers in affluent cities in the economically well-developed regions in China, including Beijing, Tianjin, Hangzhou, Chengdu, Qingdao and Foshan, and we believe that we have established our brand as the industry standard in those markets in terms of service quality. Among all ultra-luxury automobile brands, the market share of Porsche in terms of the sales volume of new automobiles in 2020 was approximately 88.5%, which represented the largest market share in the ultra-luxury automobile market in China for 2020, according to the Frost & Sullivan Report. We have achieved leading positions in terms of revenue generated from sales of Porsche automobiles in 2020 in Beijing, Tianjin and Chengdu. Our success in the ultra-luxury brand automobile segment is powered by our standardized operations and expertise in understanding the needs of luxury and ultra-luxury brand automobile purchasers, which have allowed us to conduct effective marketing towards high-net-worth customers and provide them with quality services they expect. We believe that our operational capabilities and expertise have helped automobile manufacturers gain market share and win customer loyalty in China, which, in turn, have contributed to our long-term relationships with them.

Manufacturers of luxury and ultra-luxury brand automobiles usually adopt stringent selection criteria when selecting dealers. As a leading automobile dealership service provider with a proven track record and strong operating capabilities in the luxury and ultra-luxury brand automobile dealership market, we believe that we are well-positioned to obtain additional authorizations from our existing luxury and ultra-luxury brands to broaden our dealership network and expand our brand portfolio by establishing business relationships with new luxury and ultra-luxury automobile brands. Due to the relatively high entry barriers in the luxury and ultra-luxury automobile markets, we believe that our leading market position and our standardized operational model will continue to give us a competitive advantage over new participants and enable us to seize the opportunities in the future when expanding our network to other tier-one and tier-two cities in China.

Our standardized and centralized management enables us to efficiently operate and expand our business

We have implemented standardized and centralized management for our extensive 4S dealership store network across different regions in China. At the group level, we have adopted standardized management for our 4S dealership stores, including investment in new stores, pricing, procurement, inventory management, financial management and budgeting. These standardized management processes have resulted in an effective operation model which can be readily replicated to our future 4S dealership stores in new geographic areas.

In addition, we centrally manage the staffing, human resources, budgeting and working capital of all our 4S dealership stores at the group level to optimize our allocation of resources. Supported by our integrated database, we are able to efficiently assess and analyze the performance of each 4S dealership store and adjust management strategies for better results. We also coordinate and aggregate orders for new automobiles, spare parts, automobile accessories and other automobile-related products across our 4S dealership network, which in turn helps us optimize the mix of automobiles and automobile-related products in each of our 4S dealership stores to achieve fast inventory turnover, increase overall gross profit margin per automobile sale and expand after-sales services. We have established advanced information technology systems in our headquarters and across our 4S dealership stores as a uniform digital platform that integrates data and information of our customers, automobile brands, retail stores, third-party service providers and strategic partners. In 2016, we completed the roll-out of our ERP system, which maintains in a database the information needed for a variety of business functions, such as inventory, financial and human resources management. We use our information technology systems to identify fast and slow-selling automobile models or spare parts, accessories or other automobile-related products, analyze the sales trends of various products in different regions based on the historical data of purchase orders and sales volumes, and adjust the mix of products and services offered at each of our 4S dealership stores. In addition, we periodically organize various automobile owners' activities, such as new model launch events, self-drive tours, golf games and kart racing events, to engage customers. Our digitalized operating system has allowed us to cater to various demands and consumption habits of our customers and as a result, helps increase customer loyalty. Moreover, our digitalized operating system simplifies the work process for our employees, helps reduce staff costs and enables us to rely on institutional knowledge instead of employees' personal knowledge, thereby reducing risks from employee turnovers.

We believe that we have been able to achieve economies of scale in various aspects, including procurement, financial management and human resources management. Given the large purchase orders of automobiles, spare parts and accessories we aggregate from our different 4S dealership stores, we are able to obtain more favorable terms from our suppliers than other smaller competitors. We believe that an information technology system based on the advanced technologies will continue to facilitate the exchange of information between our headquarters and our 4S dealership store network, and enable us to support both the formation and execution of our business and operational strategies. We believe that our expertise in

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operating 4S dealership stores, long-term relationships we have maintained with automobile manufacturers and the extensive experience our management team has accumulated will continue to benefit us for our future business expansion and differentiate us from our competitors.

We have a strategic network of 4S dealership stores covering affluent markets and fast-developing regions in China with strong growth potential in the luxury and ultra-luxury brand automobile segments

We have strategically established a network of 4S dealership stores located in major automobile markets in affluent regions of China, as well as in other regions with high growth potential. In particular, we have a strong presence in six provinces/municipalities across China, including Beijing, Tianjin, Shandong, Sichuan, Zhejiang and Guangdong. These six provinces/municipalities were all among the top ten provincial-level administrative regions in China in terms of the number of high-net-worth individuals in 2020, and had shown strong purchase power and demand for luxury and ultra-luxury passenger vehicles, according to the Frost & Sullivan Report. As of the Latest Practicable Date, six of our 12 4S dealership stores and our corporate headquarters were located in Beijing. From our Beijing base, we have been able to grow our business, refine our business model and develop management expertise to support our expansion into other markets, including Shandong, Zhejiang, Sichuan and Guangdong provinces and Tianjin. For example, our Porsche center located in Beijing Yizhuang Economic and Technological Development Zone (北京亦莊經濟技術開發區) is the first Porsche 3S dealership store in China. According to the Frost & Sullivan Report, we ranked first in terms of revenue generated from the sale of Porsche brand automobiles for the year ended December 31, 2020 in Beijing, Tianjin and Chengdu. Our two Porsche centers in Chengdu were recognized as the top two dealership stores for three consecutive years from 2018 to 2020 in terms of the number of automobiles delivered each year in Sichuan and Chongqing. After years of successful operations, we have become one of the core business partners of Porsche in China. In addition, to recognize our sales performance, our Audi dealership store in Beijing Yizhuang Economic and Technological Development Zone, which is our first Audi dealership store, received the “Best Sales Performance Award of the Northern District of FAW-Volkswagen Audi” (一汽大眾奧迪北部區最佳銷售業績獎) from the manufacturer in 2019 and our Jaguar-Land Rover dealership store in Hangzhou, Zhejiang province, which is our first dealership store for Jaguar-Land Rover, received the “Outstanding Sales Contribution Award of Jaguar-Land Rover Eastern District” (捷豹路虎東區優秀銷量貢獻獎) in 2020.

We believe that our strategic network of 4S dealership stores provides us with the ability to expand to nearby areas more easily. We expect that much of the expansion of our business will continue to be in clusters among tier-one and tier-two cities in China as these areas usually have a large number of high-net-worth individuals who had shown strong purchase power and demands for luxury and ultra-luxury passenger vehicles.

Our customer-oriented business philosophy and comprehensive service offerings enable us to build a loyal long-term customer base

We believe that our comprehensive service offerings are key to our success, particularly in the luxury and ultra-luxury automobile market in which customers usually are less price-sensitive and place more value on comprehensive and high-quality services. We believe that high-quality services are critical to building long-lasting customer relationships as well as attracting new customers. Our after-sales services encompass not only conventional services such as automobile repairs and maintenance and sales of automobile accessories and other automobile-related products, but also include services such as automobile insurance agency services and license plate registration, which we believe have significant growth prospects.

We have been committed to building our own corporate brand since our inception. Our “BetterLife” (百得利) brand was designed with the commitment to encourage people to pursue a better life. Adhering to our customer-oriented philosophy of “Customer for Life” (待客以恒), we are dedicated to providing customized services to satisfy each customer’s specific demands. We have established a “butler service model” (管家式服務), where we provide each customer with detailed services in the process of purchasing a new automobile, including the introduction of the brand and performance of the automobiles, selection of automobile models, arranging for test-drives and procuring the relevant financing and insurance products, as well as license plate registration services. In addition, we are dedicated to providing our customers with comprehensive after-sales services, including repairs, maintenance and warranty extension services during the life cycle of their automobiles. This service model has allowed us to increase the frequency of interactions with our customers, maintain uniform service quality across our dealership store network, and create customer loyalty.

In addition, we believe that customer retention is an important criterion in evaluating the management of each of our 4S dealership stores. We require our sales and after-sales staff to utilize the information technology systems to serve each customer in a flexible and proactive manner to enhance customers’ experience at our 4S dealership stores. We also encourage customers to conduct online service review for our sales and after-sales staff, which allows us to collect feedback and assess the quality of our services in a timely manner. Our highly effective and efficient information technology systems and digital platforms have helped to streamline and significantly enhance our ordering, inventory and logistics management as well as financial and cash management, which, in turn, enabled us to minimize the costs of maintaining inventory and improve our overall sales performance and customers’ satisfaction with our services.

Leveraging our strong and stable relationships with European automobile manufacturers, we have built a well-balanced brand portfolio, which allows us to capture growth opportunities in the luxury and ultra-luxury automobile market

We have developed strong and long-term relationships with a number of European automobile manufacturers and their PRC joint ventures. We began our business relationships with Audi in 1999. We were among the first automobile dealership groups in the PRC granted dealership rights by Audi. In 2002, we were authorized to open our first dealership store for Porsche. Our Beijing Yizhuang Porsche Center was also the first Porsche 3S dealership store in China. Our existing Porsche dealership stores in Beijing have established a proven track record and have received a number of awards from the manufacturer, such as the first place of group one in the “Third Quarter Porsche Best Practice Competition of the Northern District of China” (保時捷中國第三季度北區市場競賽組別一第一名) in 2020 and the first place of “Sales Excellence Award of Porsche Retail Competition for the First Half of 2019 of the Northern District of China” (2019上半年保時捷中國零售競賽北區第一名) in 2019. We ranked first among all 4S dealership groups which operated the Porsche brand in Beijing, Tianjin and Chengdu in terms of revenue generated in these areas for 2020, according to the Frost & Sullivan Report.

Our strong sales performance and long-term relationships with Audi and Porsche have helped us obtain dealership authorizations from many other luxury automobile brands, including Bentley and Mercedes-Benz in Qingdao and Beijing, respectively. In 2018, we entered into the dealership agreement with Volvo and established our first 4S dealership store for Volvo in the same year. In order to further expand our operations in the luxury and ultra-luxury brand automobile dealership market, we established our first dealership store for Jaguar-Land Rover in Hangzhou, Zhejiang province in 2019. This store is also the first Jaguar-Land Rover SPACE experience center, which is equipped with various digital devices, allowing customers to obtain new automobile price quotes through mobile phones and experience the one-stop and paperless automobile purchasing process. In 2020, this store was granted the “New Dealer Award of Jaguar-Land Rover Eastern District” (捷豹路虎東區經銷商新秀獎) by the manufacturer in recognition of its business performance. In developing and maintaining relationships with manufacturers, we endeavor to reduce our reliance on a specific or certain brand, and increase our share in each manufacturer’s total sales volume in the PRC and adhere to its commercial policies, such as the marketing strategies, sales and/or procurement plans and attendance of training provided by the manufacturer, in order to secure the manufacturer’s support for our network expansion in the long run. We believe that our proven track record of working with leading automobile manufacturers provides us credibility to attract new manufacturers and obtain authorizations for additional 4S dealership stores from them.

We have a seasoned senior management team supported by experienced executives at our dealership stores

We have a seasoned and stable senior management team with substantial experience in the PRC automobile dealership sector. Our senior management has been working with our Group in the PRC automobile dealership industry for an average of 14 years.

Our chairman, executive Director and chief executive officer, Mr. Chou Patrick Hsiao-Po, has over 20 years of experience in the automobile industry. In addition, Mr. Chou has taken up various positions in the relevant societies of the automobile dealership industry in China. He was appointed as the vice-president of CADA (中國汽車流通協會) in 2010 for a term of five years and served as the president of CADA Porsche Dealer Association (中國汽車流通協會保時捷經銷商聯會) from 2014 to 2016. He was also the vice-president of Audi Dealers Association (中國汽車流通協會奧迪經銷商聯會) in 2017.

In addition, we have experienced executives at our 4S dealership level across the regions we operate. We are committed to developing homegrown talents. The majority of general managers at our 4S dealership stores have been promoted through our internal assessments. They have extensive experience in the management of 4S dealership stores and have a high degree of loyalty to us. Our general managers of each of our 4S dealership stores have been working with our Group for an average of 12 years. We are dedicated to identifying and promoting talented employees and provide them with a clear career track. We primarily fill management vacancies through internal promotions, which enable us to maintain and foster a consistent corporate culture, motivate the better performance of employees and reduce management turnover.

We organize practical workplace training and meetings for our staff and management team on a regular basis, which cover various aspects of the management of 4S dealership stores, including, among others, business development on sales and after-sales services, inventory management, management of customer satisfaction, intelligent management and other business operations.

OUR STRATEGIES

We aim to strengthen our market position as a leading luxury and ultra-luxury automobile dealership service provider in China and to capture opportunities in the automobile market by pursuing the following strategies:

Further expand our automobile dealership network and brand portfolio through organic growth and selective acquisitions

We plan to focus our operations on luxury and ultra-luxury brands which complement our geographic network and brand portfolio. Despite the decrease of approximately 6.2% in the sales volume of new passenger vehicles in China from 22.6 million units in 2019 to 21.2 million units in 2020, according to the Frost & Sullivan Report, our Directors are of the view

that there is sufficient demand for our expansion of dealership network, because the number of high-net-worth individuals in China increased rapidly from 1.0 million in 2014 to 2.4 million in 2020 and is expected to continue to grow at a CAGR of 8.5% from 2020 to 2025. The increasing number of high-net-worth individuals in China will stimulate the demand for luxury and ultra-luxury automobiles and the sales volume of luxury and ultra-luxury automobiles is expected to grow at a CAGR of 10.2% and 3.3% from 2020 to 2025, respectively, according to the Frost & Sullivan Report. We intend to continue to expand our automobile dealership network in tier-one and tier-two cities in China over the next few years through a combination of organic growth and selected acquisitions. According to the Frost & Sullivan Report, the total sales volume of new passenger vehicles in China was approximately 21.2 million units in 2020, among which approximately 0.1 million units were ultra-luxury automobiles and approximately 3.5 million units were luxury automobiles. In particular, tier-one and tier-two cities in China, where we intend to expand our dealership network into, are the major markets for luxury and ultra-luxury automobiles in China. According to the Frost & Sullivan Report, approximately 76.5% of the ultra-luxury automobiles and approximately 71.3% of the luxury automobiles were sold in tier-one and tie-two cities. Despite a slight decline in the sales volume of new passenger vehicles in China for 2020 due to the COVID-19 pandemic, the sales volume of new passenger vehicles is expected to gradually recover from 2021 onwards due to (i) the increasing demand for passenger vehicles in high-end market led by the consumption upgrading trend in China; (ii) the new energy vehicles to be launched and promoted by various passenger vehicle brands in China in the upcoming years; (iii) the PRC government's expected promotion of automobile sales after the COVID-19 pandemic as indicated and proposed at the executive meeting of the State Council in November 2020; (iv) promoting the consumption of passenger vehicles has been listed as one of the key tasks of the PRC government in 2021 as part of the efforts to stimulate domestic demand and consumption, according to the Report of the Work of the Government issued by the National People's Congress in March 2021; and (v) Sino-U.S. trade tensions are not likely to pose significant impact on sales of automobiles as the trade tensions have been eased after the long-awaited phase-one trade deal was entered into between the two countries on January 15, 2020. According to the Frost & Sullivan Report, the sales volume of new passenger vehicles in China is anticipated to reach 26.0 million units in 2025, representing a CAGR of 4.2% from 2020 to 2025.

Organic growth

We plan to expand our network by opening new dealership stores for the brands that we currently operate. For the locations, we will target tier-one and tier-two cities in China which are close to the cities where our existing 4S dealership stores are located, especially the Yangtze River Delta and the Greater Bay Area in Guangdong province, as well as the rest of the top ten provincial regions in terms of the number of high-net-worth individuals in China for 2020, namely Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Hubei, Fujian and Tianjin ("the top ten provincial regions"), according to the Frost & Sullivan Report. There is strong demand for luxury and ultra-luxury passenger vehicles in the top ten provincial regions. The sales volume of new luxury and ultra-luxury passenger vehicles in the top ten provincial regions accounted for approximately 60.0% of the total sales volume of new luxury and ultra-luxury passenger vehicles in China. The sales volume of new luxury and

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ultra-luxury passenger vehicles in the top ten provincial regions grew at a relatively faster pace than that in the rest of the provincial regions in China during the past few years. It increased at a CAGR of 10.0% from 2014 to 2020, while the sales volume in the rest of the provincial regions in China grew at a CAGR of 9.5% during the same years, according to the Frost & Sullivan Report. We believe that the luxury and ultra-luxury automobile brands are still actively expanding their dealership network in China, which provide us with numerous opportunities to expand our business operations through organic growth. According to the Frost & Sullivan Report, the manufacturers of Porsche, Audi, Volvo, Mercedes-Benz, Bentley and Jaguar-Land Rover authorized to establish 35, 57, 85, 83, 11 and 56 new dealership stores in China during the Track Record Period, respectively.

We will designate personnel to closely follow the information released by automobile manufacturers for new dealership store establishment, especially in our target areas, and conduct feasibility studies on a case-by-case basis. During the Track Record Period, the total number of our dealership stores did not increase significantly, primarily due to our change of strategy to focus our operations on luxury and ultra-luxury brands. We established two dealership stores for luxury brands, namely Volvo and Jaguar-Land Rover, in Beijing and Hangzhou during the Track Record Period, which was in line with our strategy. We intend to open three to four new dealership stores for Mercedes-Benz, Bentley and Jaguar-Land Rover in Beijing, Shanghai and Zhuhai. We have conducted preliminary communications with the relevant automobile manufacturers to indicate our interests in opening a new dealership store in a particular region and have obtained a preliminary approval from the manufacturer of Jaguar-Land Rover for a new dealership store in Shanghai. We will proceed to negotiate with the manufacturer of Jaguar-Land Rover on the dealership agreement and expect to open such new dealership store in the fourth quarter this year. We will follow up with the manufacturers on their expansion plans. If they plan to establish new dealership stores in our target cities, we will formulate a proposal which sets out the background information of the operating entity, the track record of our Group in operating 4S dealership stores and a preliminary plan in relation to, among others, the properties or land to be used for the new dealership store and the expected timeline for the construction and renovation of the premises. For detailed procedures of establishing a new dealership store, see “Our Business — Establishment of New 4S Dealership Stores” in this section.

The size of each new dealership store may vary on different brands. Based on the size of our existing dealership stores, we expect the gross floor area of each new 4S dealership store to range between approximately 1,000 sq.m. and 13,000 sq.m. For each new 4S dealership store (assuming the gross floor area of approximately 7,000 sq.m., being the mid-point of the expected range of the gross floor area of a new dealership store), we expect the initial expenditure to be approximately RMB86.0 million, among which (i) approximately RMB56.0 million will be used for interior decoration; (ii) approximately RMB10.0 million will be used for purchasing and installing fixtures or other equipment; and (iii) approximately RMB20.0 million will be used for procuring initial inventory. Assuming that we establish approximately three to four new 4S dealership stores, we expect to use 30.0%, or HK\$188.2 million, of the net proceeds from the Global Offering to fund our establishment of new dealership stores. See “Future Plans and Use of Proceeds” in this prospectus.

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As of the Latest Practicable Date, we had not entered into any letter of intent with our automobile manufacturers with respect to the establishment of new dealership stores, nor did we incur any expenditure on the proposed new dealership stores.

Selective acquisition

We also plan to acquire other 4S dealership stores that operate luxury and ultra-luxury brands, including, among others, Porsche, Mercedes-Benz, BMW, Audi, Volvo, Jaguar-Land Rover, Bentley and Rolls-Royce. We will particularly focus on our expansion in tier-one and tier-two cities in the Yangtze River Delta, the Greater Bay Area in Guangdong province and the rest of the top ten provincial regions in terms of the number of high-net-worth individuals in China for 2020, namely Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Hubei, Fujian and Tianjin, according to the Frost & Sullivan Report, since these areas have a large number of high-net-worth individuals, which had shown significant growth potential in terms of demand for luxury and ultra-luxury automobiles. Specifically, we plan to acquire three to four 4S dealership stores in Beijing, Nanjing and Suzhou that operate brands of Mercedes-Benz and Jaguar-Land Rover using the proceeds from the Global Offering. According to the Frost & Sullivan Report, in 2020 there were approximately 2,700 4S dealership stores that operate luxury and ultra-luxury brands in tier-one and tier-two cities in China, which in the opinion of our Directors, may potentially be our acquisition targets. In particular, we intend to look for suitable targets at Beijing, Shanghai, Guangzhou, Shenzhen, Zhuhai, Chengdu, Chongqing, Hangzhou, Nanjing and Suzhou. According to the Frost & Sullivan Report, there were 123, 113, 67, 77, 14, 63, 43, 59, 48 and 49 dealership stores that operated the abovementioned luxury and ultra-luxury brands in the abovementioned cities as of April 30, 2021. As of the Latest Practicable Date, we had not identified any definitive acquisition target or confirmed the number of dealership stores to be acquired or the timeframe involved. We had not entered into any legally binding agreement with respect to the acquisition of other dealership stores. We are in the preliminary stage of evaluating potential opportunities and have yet to complete any concrete feasibility studies.

In December 2020, we acquired Laifu Auto, which had obtained authorization to operate a 4S dealership store for Jaguar-Land Rover in Foshan, Guangdong province. This dealership store has a gross site area of approximately 5,700 sq.m. Leveraging its existing customer base and our past operating experience of our existing dealership stores, we expect that this dealership store will generate revenue of no less than RMB400.0 million per year from its second full year of operations.

The size and scale of each target for future acquisitions may vary on a case-by-case basis and we generally do not have any specific requirement for their business scale. We primarily intend to acquire the majority or controlling shareholding of the target company and install our own management team to take over the operations. For each acquired dealership store, we need to obtain the authorization from the respective automobile manufacturer and enter into a new dealership agreement. In selecting suitable targets, we will take into account various parameters, including but not limited to, the existing customer base, the local penetration rate of passenger vehicles and the expected payback and breakeven periods of a target dealership store. Based on our past acquisition experience, we expect the costs for acquiring a new dealership store will not be over RMB100.0 million. We expect to use 45.0%, or HK\$282.3 million, of the net proceeds from the Global Offering to fund our future acquisition plans. See “Future Plans and Use of Proceeds” in this prospectus. As of the Latest Practicable Date, we had not identified any definitive acquisition target or confirmed the number of dealership stores to be acquired or the timeframe involved. We had not entered into any legally binding agreement with respect to the acquisition of other dealership stores as of the Latest Practicable Date.

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The breakeven period of a newly established or acquired dealership store is generally expected to be approximately one year, and the investment payback period is generally expected to be within five years from the date of commencement of operations. The estimated average breakeven sales volume of a new dealership store will be approximately 665 units, assuming that (i) the average retail price of a new automobile will be approximately RMB550,000, which is determined with reference to the average retail price of automobiles sold by our existing dealership stores in 2020; (ii) the average gross profit that we expect to derive from each sale of automobile will be approximately RMB55,550, taking into account that the gross profit margin of our dealership stores will remain at a similar level as for the year ended December 31, 2020, which is 10.1%. See “Our Network” in this section for details of the gross profit margin of each of our dealership stores during the Track Record Period; and (iii) the net operating expenses that we anticipate to incur for each new dealership store will be approximately RMB37.0 million, which is determined with reference to the average net operating expenses (representing other income and gains net of selling and distribution expenses, administrative expenses, other expenses and finance costs) we incurred per dealership store for 2020. The expected breakeven and payback periods are derived from our Directors’ best estimation after taking into account (i) the expected revenue and growth in the sales of automobiles and after-sales services with reference to the historical performance of our existing dealership stores; (ii) the market condition and prospects; and (iii) the estimated operating expenses with reference to our existing dealership stores.

The table below sets forth the breakeven and payback periods for each of our existing dealership stores as of the Latest Practicable Date:

| <u>Store Name</u> | <u>Breakeven Period⁽¹⁾</u> | <u>Payback Period⁽²⁾</u> |
|---------------------------------|---|---|
| | <i>Month(s)</i> | <i>Month(s)</i> |
| <i>Porsche</i> | | |
| Beijing Yizhuang Porsche Center | 14 | 25 |
| Beijing Haidian Porsche Center | 2 | 6 |
| Tianjin Airport Porsche Center | 1 | 3 |
| Chengdu Jinniu Porsche Center | 1 | 6 |
| Chengdu Airport Porsche Center | 1 | 8 |
| <i>Audi</i> | | |
| Beijing Yizhuang Audi | 10 | 18 |
| Beijing Haidian Audi | 47 | NA ⁽³⁾ |
| <i>Mercedes-Benz</i> | | |
| Beijing Haidian Mercedes-Benz | 7 | 23 |
| <i>Bentley</i> | | |
| Qingdao Bentley | 21 | 53 |
| <i>Volvo</i> | | |
| Beijing Haidian Volvo | 7 | NA ⁽³⁾ |
| <i>Jaguar-Land Rover</i> | | |
| Hangzhou Jaguar-Land Rover | 1 | NA ⁽³⁾ |
| Foshan Jaguar-Land Rover | NA | NA ⁽³⁾ |

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Notes:

- (1) The breakeven period represents the period required for a dealership store to generate revenue that covers its cost of sales and other operating expenses after commencement of operations.
- (2) The payback period represents the period required for accumulated net profit of a dealership store to recover the total capital expenditure incurred for setting up its operations.
- (3) As of the Latest Practicable Date, these stores have not reached the breakeven point or paid back.

For our expansion plan, we expect to incur additional expenses for hiring new employees (which we expect to be approximately 100 personnel per store) and integrating our information technology systems into the newly established or acquired stores to extend control and management from our Group. We do not expect there will be any material changes to our cost structure due to the implementation of our expansion plan. However, we are subject to potential risks in association with our expansion plan. Similar to the new dealership stores for Volvo and Jaguar-Land Rover, we may incur gross losses during its ramp-up period. For risks in connection with our expansion plan, see “Risk Factors — Risks Relating to Our Business — We may not be able to successfully implement our expansion plans” in this prospectus for more information.

Continue to maintain and upgrade our information technology systems to strengthen our operating capabilities, enhance customers’ experience and increase our same-store sales growth

We will continue to seek ways to strengthen our operating capabilities in order to enhance our same-store sales growth and improve our profitability. With digitalization as a value-enhancing resource, we will continue to upgrade our centralized ERP system over the next few years to further enhance its functions and improve our operating efficiency. We plan to collect feedback from our employees and conduct analysis to identify any inefficiency of the system and make improvements to optimize the performance and user experience of the system in a number of aspects, including procurement, inventory management, sales and finance. We also plan to devote resources to upgrading our systems used for coupon management of our maintenance services and internal expenses reimbursement. We plan to use approximately 5.0%, or HK\$31.4 million, of the net proceeds from the Global Offering to optimize and upgrade our information technology systems. See “Future Plans and Use of Proceeds” in this prospectus. In particular, we plan to enhance our management of inventory and resources allocation across different stores, which in turn is expected to help us reduce our inventory turnover days and related expenses. We will continue to strengthen the centralized management of our capital within our Group to optimize the utilization of our capital resources as well as control over pricing.

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Enhance our after-sales services and automobile-related value-added services to achieve fast business growth

We plan to leverage our well-established operating capabilities, our leading market position and our diversified sales and marketing channels to strengthen our after-sales services, including repair and maintenance, sale of accessories and other automobile-related products, insurance agency services and license plate registration services. We also intend to expand our automobile-related value-added services, such as the pre-owned automobile brokerage services and automobile financing services. Our after-sales services and automobile-related value-added business generate recurring revenue and had relatively high profit margins during the Track Record Period. By offering a variety of after-sales services and comprehensive automobile-related value-added services, we seek to capture a range of recurring revenue from automobile owners over the life cycle of their vehicles.

Through our sale of new automobiles, we have built a natural pipeline of customers to grow the customer base for our after-sales and other automobile-related value-added services. As advised by our PRC Legal Advisor, given the nature of our automobile financing and pre-owned automobile brokerage services, we are not required to obtain any license under the relevant PRC laws and regulations to engage in such businesses. We plan to maintain and renovate our existing 4S dealership stores, including the showrooms and repair and maintenance service workshops to optimize our daily operations, improve customers' experience at our 4S dealership stores and enhance the quality of our after-sales services. In particular, from 2021 to 2022, we intend to renovate (i) the showrooms for Beijing Yizhuang Porsche Center, Chengdu Airport Porsche Center and Beijing Haidian Mercedes-Benz; and (ii) the repair and maintenance service workshop for Chengdu Airport Porsche Center. We plan to use 10.0%, or HK\$62.7 million, of the net proceeds from the Global Offering to fund the renovation. See "Future Plans and Use of Proceeds" in this prospectus. For our automobile financing and pre-owned automobile brokerage services, as the growth of these businesses are associated with our sale of automobiles, we plan to improve the penetration rate of these services by optimizing our sales incentive schemes to motivate our employees to achieve better sales performance. In addition, since we primarily rely on banks and financing companies to provide automobile financing services to our customers and we mainly cooperate with third-party companies, which conduct inspections, appraisals and trading services for pre-owned automobiles, we plan to continue to select reliable cooperative partners and maintain our relationships with them. We intend to fund the development of our automobile-related value-added services by our working capital generated from our operations. Going forward, we expect that eCapital will continue to be one of the financing companies to which we referred customers for automobile financing services.

For the years ended December 31, 2018, 2019 and 2020, the commission income that we received from referring customers to eCapital for automobile financing services was RMB32,000, RMB35,000 and RMB59,000, respectively. The commission fees that we charged from eCapital were accounted for as part of our other income in our consolidated statements of profit or loss. The estimated annual caps in relation to such arrangement with eCapital for the years ending December 31, 2021, 2022 and 2023 will be RMB1,000,000, RMB1,100,000 and RMB1,210,000, respectively. See "Connected Transactions — Continuing Connected Transactions – Non-exempt Continuing Connected Transactions – (4) B. Cooperation with eCapital" in this prospectus for more information.

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We will maintain close communications with our customers and follow up with each of them throughout the life cycle of their automobiles in order to expand our business opportunities. We also plan to devote resources to continuously improving our service quality. We will continue to provide workplace training to our after-sales and customer relations personnel to enhance their ability and our service quality to maximize customer satisfaction. We believe these measures will enable us to engage more customers from the sale of new automobiles and to encourage automobile insurance providers to refer their customers to our stores for repair. We also plan to implement staff performance evaluation and incentive schemes to drive the growth and the profitability of our after-sales services and automobile-related value-added services.

For the years ended December 31, 2018, 2019 and 2020, our gross profit margin of our after-sales services was 48.2%, 46.8% and 45.2%, respectively, compared to the gross profit margin of the sales of automobiles of 4.3%, 3.7% and 5.1% for the same years, respectively. We believe these segments of our business have substantial growth potential and strong sustainability and stability, and expect them to continue to be the focus of our future business development.

Further expand our new energy vehicle business to adapt to and capture the growing new energy vehicle market

To adapt to and capture the growing new energy vehicle market, we have introduced new energy vehicle models produced by our automobile manufacturers to our product portfolio since 2011. During the Track Record Period, we sold new energy vehicles for five brands, namely Porsche, Audi, imported Volkswagen, Volvo and JAC Volkswagen- Sihao. In the next few years, we expect that the sales of petroleum automobiles will continue to be the major revenue source of our business but we expect the types of new energy vehicle models and the proportion of new energy vehicles sold by our Group will increase in line with the electrification strategies of our automobile manufacturers.

Leveraging our extensive experience in the automobile dealership industry, a strong mix of brand in the portfolio and an established dealership network with a large customer base in China, we believe that we are able to quickly adapt ourselves to the evolving new energy vehicle market. We expect that the traditional automobile manufacturers, including those that we currently cooperate with, will continue to rely on their authorized dealers to sell new energy vehicles and provide after-sales services because the established nationwide dealership network will enable the automobile manufacturers to quickly reach customers. Except for Mercedes-Benz, our existing dealership agreements did not stipulate any terms or requirements in relation to new energy vehicles. We have communicated with the manufacturer of Mercedes-Benz and plan to enter into a dealership agreement with it for new energy vehicles in the second half of 2021.

With the implementation of manufacturers' automobile electrification strategies, we have equipped our dealership stores with necessary equipment and facilities, such as charging infrastructure, automotive diagnostic tools and other equipment based on the requirements and

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guidance of the relevant manufacturers for providing sales and after-sales services of new energy vehicles. Specifically, we have equipped our dealership stores with equipment and facilities for the repair and maintenance of new energy vehicles, including, among other things, protection work suits for high voltage electricity, high voltage testing adapters, cable kits and high voltage chargers. The automobile manufacturers provide regular training to our management and other staff, which cover various topics of new energy vehicles, including product specifications, user manuals and other service-related operational capabilities. Our staff for the repair and maintenance services have obtained certificates or qualifications for the repair and maintenance of new energy vehicles granted by the manufacturers of new energy vehicles or the relevant government authorities. We also provide technical training to our after-sales services team in relation to the features and structures of electric vehicles as well as the repair and maintenance tips of electric vehicles. We have also designated personnel to closely follow the progress of the electrification plans of our automobile manufacturers. We proactively discuss the business plans with the manufacturers regarding new energy vehicles and adjust our product mix to increase our procurement volume of new energy vehicles based on the market demand. We will continue to provide training to our sales and after-sales personnel to keep them abreast of the market development and enhance their knowledge and skills of new energy vehicles. See “Business — Competition — Impact of the New Energy Vehicle Market and Our Business Prospects” in this prospectus for further information.

Continue to focus on the recruitment, training and retention of employees to support our future growth and expansion

We believe that a stable, loyal and well-trained workforce is crucial to our long-term success. We plan to continue to focus on our team building and provide competitive remuneration packages to attract and retain talent. We plan to continue to focus on the recruitment, training and retention of our management team, sales professionals and technicians who possess the required qualifications and industry expertise. To meet the needs of our expansion plan, we are committed to devoting more resources to campus recruitment in order to source, engage and hire more young people who major in automotive mechanics, marketing, finance or human resources to join our Group. We also intend to invest in internal training programs for our employees and provide comprehensive training to our employees.

In addition, we will continue to refine our human resources management to ensure that the performance of our employees at our 4S dealership stores will be regularly and appropriately evaluated and they will be provided with a clear career path within our Group. We also intend to continue to evaluate our merit-based compensation system to ensure that incentives are aligned with our employees’ performance.

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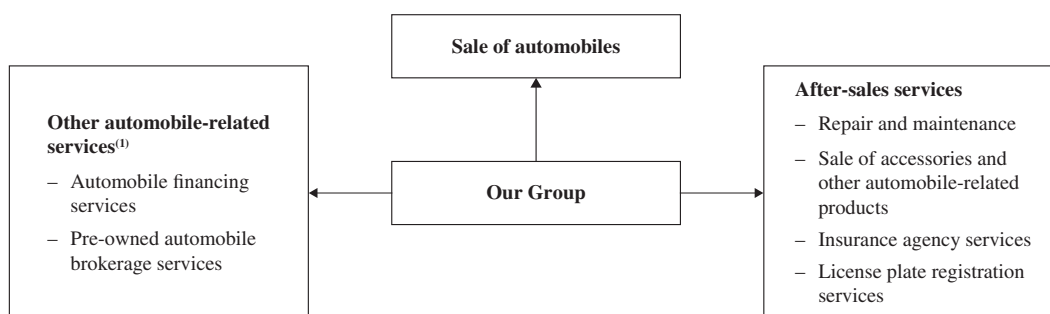
OUR BUSINESS

We are an automobile dealership service provider in China focusing on luxury and ultra-luxury brands. We ranked sixth among all ultra-luxury brand automobile dealership service providers in China as measured by revenue generated for 2020 with a market share of approximately 4.0%, according to the Frost & Sullivan Report. As of the Latest Practicable Date, we operated 12 4S dealership stores for (i) two ultra-luxury brands, namely Porsche and Bentley; and (ii) four luxury brands, including Mercedes-Benz, Audi, Volvo and Jaguar-Land Rover. During the Track Record Period, we also operated 4S dealership stores for a medium-level brand, namely Volkswagen and an entry-level brand, namely JAC Volkswagen-Sihao. During the Track Record Period and up to the Latest Practicable Date, the services we provide primarily include:

- sale of automobiles; and
- after-sales services, including repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and license plate registration services.

In addition to after-sales services above, we provide other automobile-related value-added services to customers, including automobile financing and pre-owned automobile brokerage services.

The diagram below sets forth the operation model of our businesses:



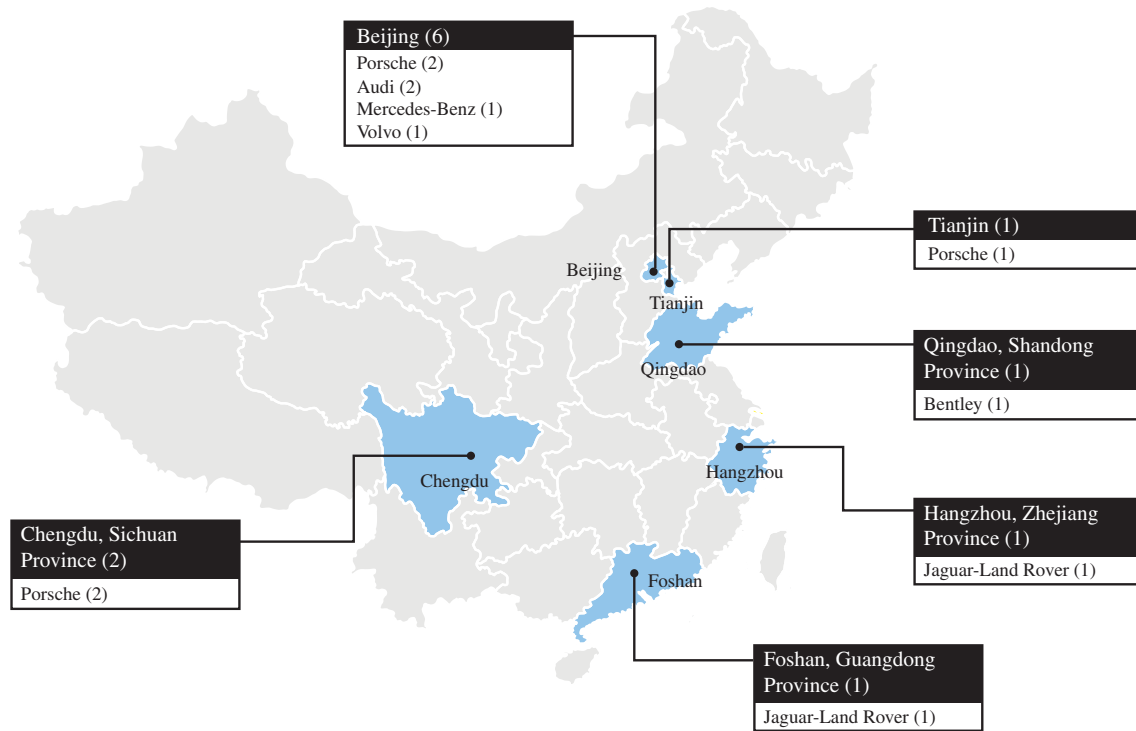
Note:

- (1) During the Track Record Period, we generated commission income from automobile financing and pre-owned automobile brokerage services, which were recognized as other income in our consolidated statements of profit or loss.

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We conduct our businesses through our network of manufacturer-authorized dealership stores. As of the Latest Practicable Date, we operated 12 4S dealerships across six provinces and municipalities in China, namely Beijing, Tianjin, Shandong, Sichuan, Zhejiang and Guangdong.

The map below illustrates the geographic coverage of the network of our existing 4S dealership stores as of the Latest Practicable Date:



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The table below sets forth the breakdown of our revenue by business segment for the years indicated:

| | Year Ended December 31, | | | | | |
|--|-------------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Sale of automobiles | | | | | | |
| – Ultra-luxury brands ⁽¹⁾ | 4,103,418 | 48.8 | 4,128,997 | 50.5 | 4,115,507 | 48.2 |
| – Luxury brands ⁽²⁾ | 2,947,240 | 35.0 | 2,730,181 | 33.4 | 3,228,762 | 37.8 |
| – Medium-level and entry-level brands ⁽³⁾ | <u>296,092</u> | <u>3.5</u> | <u>210,164</u> | <u>2.6</u> | <u>118,186</u> | <u>1.4</u> |
| Subtotal | <u>7,346,750</u> | <u>87.4</u> | <u>7,069,342</u> | <u>86.4</u> | <u>7,462,455</u> | <u>87.5</u> |
| After-sales services | | | | | | |
| – Repair and maintenance | 799,526 | 9.5 | 876,195 | 10.7 | 802,676 | 9.4 |
| – Sales of accessories and other automobile-related products | 192,417 | 2.3 | 191,701 | 2.3 | 227,597 | 2.7 |
| – Insurance agency services | 50,213 | 0.6 | 23,357 | 0.3 | 21,821 | 0.3 |
| – License plate registration services | <u>20,272</u> | <u>0.2</u> | <u>18,186</u> | <u>0.2</u> | <u>18,581</u> | <u>0.2</u> |
| Subtotal | <u>1,062,428</u> | <u>12.6</u> | <u>1,109,439</u> | <u>13.6</u> | <u>1,070,675</u> | <u>12.5</u> |
| Total | <u>8,409,178</u> | <u>100.0</u> | <u>8,178,781</u> | <u>100.0</u> | <u>8,533,130</u> | <u>100.0</u> |

Notes:

- (1) Ultra-luxury brands include Porsche and Bentley.
- (2) Luxury brands include Mercedes-Benz, Audi, Volvo and Jaguar-Land Rover.
- (3) During the Track Record Period, we operated 4S dealership stores for imported Volkswagen, which is a medium-level brand, and JAC Volkswagen-Sihao, which is an entry-level brand of new energy automobiles. We disposed of the dealership stores for imported Volkswagen in December 2020 as we intended to focus our operations on luxury and ultra-luxury brands. Due to changes in operations and our strategy to focus our operations on luxury and ultra-luxury brands, we and the manufacturer of JAC Volkswagen-Sihao agreed to terminate the dealership agreements and close the 4S dealership stores for this brand in September 2020.

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The table below sets forth the breakdown of our gross profit and gross profit margin by business segment for the years indicated:

| | Year Ended December 31, | | | | | |
|--|-------------------------|---------------------|----------------|---------------------|----------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Sale of automobiles | 312,948 | 4.3 | 262,638 | 3.7 | 379,577 | 5.1 |
| After-sales services | | | | | | |
| Repair and maintenance . . | 350,963 | 43.9 | 392,506 | 44.8 | 368,030 | 45.9 |
| Sales of accessories and other automobile-related products | 102,743 | 53.4 | 101,899 | 53.2 | 97,748 | 42.9 |
| Insurance agency services. | 42,700 | 85.0 | 10,743 | 46.0 | 4,628 | 21.2 |
| License plate registration services | 15,842 | 78.1 | 14,412 | 79.2 | 13,630 | 73.4 |
| Subtotal | 512,248 | 48.2 | 519,560 | 46.8 | 484,036 | 45.2 |
| Total | 825,196 | 9.8 | 782,198 | 9.6 | 863,613 | 10.1 |

The table below sets forth the breakdown of revenue by geographic region for the years indicated:

| | Year Ended December 31, | | | | | |
|------------------------|-------------------------|--------------|------------------|--------------|------------------|--------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Beijing | 5,552,646 | 66.0 | 5,213,699 | 63.7 | 5,134,193 | 60.2 |
| Tianjin | 648,265 | 7.7 | 578,849 | 7.1 | 531,445 | 6.2 |
| Chengdu | 1,793,561 | 21.3 | 2,055,740 | 25.1 | 2,209,102 | 25.9 |
| Qingdao | 204,347 | 2.4 | 170,596 | 2.1 | 178,532 | 2.1 |
| Weifang | 45,763 | 0.5 | 47,109 | 0.6 | 51,429 | 0.6 |
| Hangzhou | 164,596 | 2.0 | 112,788 | 1.4 | 428,429 | 5.0 |
| Total | 8,409,178 | 100.0 | 8,178,781 | 100.0 | 8,533,130 | 100.0 |

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Our Network

Since we opened our first dealership store in 2000, we have built a leading presence in China for automobile dealership operations, especially for Porsche and other major European automobile brands.

The table below sets forth the details of 4S dealership stores we operated as of the Latest Practicable Date:

| Store Name | Location | Gross Floor Area (sq.m.) | Operation Commencement Date ⁽¹⁾ | Expiration Date of the Latest Dealership Agreement ⁽²⁾ | Nature of Property Interest (Expiration Date of the Lease Agreement) |
|------------------------------------|---|--------------------------|--|---|--|
| <i>Porsche</i> | | | | | |
| 1. Beijing Yizhuang Porsche Center | 1 East Ring North Road, Economic and Technological Zone, Beijing (北京市經濟技術開發區東環北路1號) | 2,330.8 | November 5, 2003 | December 31, 2023 | Owned property |
| 2. Beijing Haidian Porsche Center | Building 61, No. 35 Wu Kong Qiao, Ba Li Zhuang Street, Haidian District, Beijing (北京市海澱區八里莊街道五孔橋35號61號平房) | 6,365.7 | June 18, 2009 | December 31, 2023 | Leased property (November 30, 2023) |
| 3. Tianjin Airport Porsche Center | 59 Automobile Park Middle Road, Free Trade Zone (Airport Economic Zone), Tianjin (天津自貿試驗區(空港經濟區)汽車園中路59號) | 10,500.1 | January 26, 2007 | December 31, 2023 | Leased property (October 31, 2025) |
| 4. Chengdu Jinniu Porsche Center | 173 Shuxi Road, Jinniu District, Chengdu, Sichuan Province (四川省成都市金牛區蜀西路173號) | 9,910.0 | June 10, 2014 | December 31, 2023 | Leased property (March 31, 2029) |
| 5. Chengdu Airport Porsche Center | 86 Xinyuan South Three Road, High Technology District, Chengdu, Sichuan Province (四川省成都市高新區新園南三路86號) | 9,722.0 | September 4, 2014 | December 31, 2023 | Leased property (February 26, 2028) |

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| Store Name | Location | Gross Floor Area (sq.m.) | Operation Commencement Date ⁽¹⁾ | Expiration Date of the Latest Dealership Agreement ⁽²⁾ | Nature of Property Interest (Expiration Date of the Lease Agreement) |
|----------------------------------|--|--------------------------|--|---|--|
| <i>Audi</i> | | | | | |
| 6. Beijing Yizhuang Audi | Building A-1, 1 East Ring North Road, Economic and Technological Zone, Beijing (北京市經濟技術開發區東環北路1號,甲1號樓) | 6,309.3 | September 1, 2000 | September 15, 2023 | Leased property (December 31, 2023) |
| 7. Beijing Haidian Audi | First Floor, Building 68, 35 Wu Kong Qiao, Ba Li Zhuang Street, Haidian District, Beijing (北京市海澱區八里莊街道五孔橋35號68號樓一層) | 11,125.7 | June 12, 2014 | September 15, 2023 | Leased property (December 31, 2023) |
| <i>Mercedes-Benz</i> | | | | | |
| 8. Beijing Haidian Mercedes-Benz | Building 29, 35 Wu Kong Qiao, Ba Li Zhuang Street, Haidian District, Beijing (北京市海澱區八里莊街道五孔橋35號院29號樓) | 11,113.5 | December 26, 2009 | December 31, 2023 | Leased property (November 30, 2023) |
| <i>Bentley</i> | | | | | |
| 9. Qingdao Bentley | 177 Middle Heilongjiang Road, Chengyang District, Qingdao, Shandong Province (山東省青島市城陽區黑龍江中路177號) | 880.0 | August 6, 2016 | December 31, 2023 | Leased property (December 31, 2025) |
| <i>Volvo</i> | | | | | |
| 10. Beijing Haidian Volvo | Room 201, Second Floor, Building 27, 35 Wu Kong Qiao, Ba Li Zhuang Street, Haidian District, Beijing (北京市海澱區八里莊街道五孔橋35號院27號樓二層201) | 2,422.5 | December 13, 2018 | December 30, 2023 | Leased property (December 31, 2023) |

BUSINESS

| Store Name | Location | Gross Floor Area (sq.m.) | Operation Commencement Date ⁽¹⁾ | Expiration Date of the Latest Dealership Agreement ⁽²⁾ | Nature of Property Interest (Expiration Date of the Lease Agreement) |
|---|--|--------------------------|--|---|--|
| <i>Jaguar-Land Rover</i> | | | | | |
| 11. Hangzhou Jaguar-Land Rover | The First Floor, Building 1, 1780 Jiangling Road, Binjiang District, Hangzhou (including the inner second floor) (杭州市濱江區江陵路1780號1幢一層(包括內2層)) | 6,994.4 | December 13, 2019 | November 27, 2024 | Leased property (December 31, 2023) |
| 12. Foshan Jaguar-Land Rover ⁽³⁾ | The east side of Licun Section, Guangzhu Road, Licun Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (佛山市順德區倫教街道辦事處荔村村委會廣珠路荔村路段東側) | 5,700.0 | January 7, 2021 | March 31, 2024 | Leased property (August 8, 2028) |

Notes:

- (1) The commencement date of operations is either the date on which the first invoice was issued to a customer or the date on which we entered into the first sales contract with a customer, whichever is earlier.
- (2) The dealership agreements that we entered into with the manufacturers of Porsche, Audi, Bentley, Volvo and Jaguar-Land Rover are generally renewable upon mutual agreements. For the dealership agreement that we entered into with Mercedes-Benz, unless one party notifies the other at least six months prior to the end of the second calendar year following the effective date of the dealership agreement that it does not intend to renew the agreement, the dealership agreement shall be automatically renewed for three years from January 1.
- (3) In December 2020, we acquired Laifu Auto, which had obtained authorization to operate a 4S dealership store for Jaguar-Land Rover in Foshan, Guangdong province. This dealership store has commenced operations in January 2021.

The table below sets forth details of changes to the number of our 4S dealership stores during the Track Record Period:

| | Movement during the year ended December 31, 2018 | | | Movement during the year ended December 31, 2019 | | | Movement during the year ended December 31, 2020 | | | Movement from January 1, 2021 to the Latest Practicable Date | | |
|---|---|----------|---|---|------------------|---|---|----------|---|--|----------|---|
| | Number of dealership stores as of January 1, 2018 | | Number of dealership stores as of December 31, 2018 | Number of dealership stores as of January 1, 2019 | | Number of dealership stores as of December 31, 2019 | Number of dealership stores as of January 1, 2020 | | Number of dealership stores as of December 31, 2020 | Number of dealership stores as of January 1, 2021 | | Number of dealership stores as of the Latest Practicable Date |
| | Newly opened | Closed | | Newly opened | Closed | | Newly opened | Closed | | Newly opened | Closed | |
| Porsche | 5 | - | 5 | - | - | 5 | - | 5 | - | 5 | - | 5 |
| Audi | 2 | - | 2 | - | - | 2 | - | 2 | - | 2 | - | 2 |
| Mercedes-Benz | 1 | - | 1 | - | - | 1 | - | 1 | - | 1 | - | 1 |
| Imported Volkswagen ⁽²⁾ | 3 | - | 3 | - | 1 ⁽¹⁾ | 2 | - | 2 | - | - | - | - |
| Bentley | 1 | - | 1 | - | - | 1 | - | 1 | - | 1 | - | 1 |
| Volvo | - | 1 | 1 | - | - | 1 | - | 1 | - | 1 | - | 1 |
| Jaguar-Land Rover ⁽³⁾ | - | - | - | 1 ⁽¹⁾ | - | 1 | - | 1 | - | 1 | - | 1 |
| JAC Volkswagen-Sihao ⁽⁴⁾ | - | - | - | - | - | 2 | - | 2 | - | 2 | - | 2 |
| Total | 12 | 1 | 13 | 3 | 1 | 15 | 1 | 4 | 15 | 12 | 4 | 12 |

Notes:

- (1) The premises of the 4S dealership store that we operated in Hangzhou for imported Volkswagen were changed to operate Jaguar-Land Rover in 2019.
- (2) With a view to focusing our operations of 4S dealership stores on luxury and ultra-luxury brands, we disposed of the two 4S dealership stores for imported Volkswagen in Qingdao and Weifang in December 2020. As of the Latest Practicable Date, we operated a total of 12 dealership stores.
- (3) In December 2020, we expanded our network to Guangdong province through the acquisition of Laifu Auto, which had obtained authorization to operate a 4S dealership store for Jaguar-Land Rover in Foshan.
- (4) We were authorized by the manufacturer of JAC Volkswagen-Sihao to open and operate two 4S dealership stores in Beijing and Qingdao in September 2019. Due to changes in operations and our strategy to focus our operations on luxury and ultra-luxury brands, we and the manufacturer agreed to terminate the dealership agreements and close the dealership stores for JAC Volkswagen-Sihao in September 2020.

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The table below sets forth a breakdown of revenue generated by each of our stores and the same store growth/decline rate in terms of revenue during the Track Record Period:

| Store Name | Revenue | | | Same Store Growth/Decline Rate | |
|---|-------------------------|------------------|------------------|-----------------------------------|------------|
| | Year Ended December 31, | | | 2018 | 2019 |
| | 2018 | 2019 | 2020 | vs 2019 | vs 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | % | % |
| <i>Porsche</i> | | | | | |
| Beijing Yizhuang Porsche Center ⁽¹⁾ | 1,009,538 | 985,018 | 902,892 | (2.4) | (8.3) |
| Beijing Haidian Porsche Center ⁽¹⁾ | 1,089,309 | 981,349 | 925,133 | (9.9) | (5.7) |
| Tianjin Airport Porsche Center ⁽¹⁾ | 639,599 | 571,572 | 530,372 | (10.6) | (7.2) |
| Chengdu Jinniu Porsche Center ⁽¹⁾ | 905,967 | 1,036,232 | 1,130,817 | 14.4 | 9.1 |
| Chengdu Airport Porsche Center ⁽¹⁾ | 887,593 | 1,019,508 | 1,078,285 | 14.9 | 5.8 |
| <i>Audi</i> | | | | | |
| Beijing Yizhuang Audi ⁽¹⁾ | 944,127 | 814,368 | 733,707 | (13.7) | (9.9) |
| Beijing Haidian Audi ⁽¹⁾ | 554,164 | 457,994 | 464,810 | (17.4) | 1.5 |
| <i>Mercedes-Benz</i> | | | | | |
| Beijing Haidian Mercedes-Benz ⁽¹⁾ | 1,910,050 | 1,816,112 | 1,761,608 | (4.9) | (3.0) |
| <i>Imported Volkswagen</i> | | | | | |
| Qingdao Imported Volkswagen ⁽²⁾ | 141,503 | 103,947 | 89,007 | (26.5) | (14.4) |
| Weifang Imported Volkswagen ⁽²⁾ | 45,763 | 47,109 | 51,429 | 2.9 | 9.2 |
| Hangzhou Imported Volkswagen ⁽²⁾ | 164,596 | 105,170 | – | (36.1) | (100.0) |
| <i>Bentley</i> | | | | | |
| Qingdao Bentley | 62,844 | 66,649 | 88,799 | 6.1 | 33.2 |
| <i>Volvo</i> | | | | | |
| Beijing Haidian Volvo | 509 | 125,743 | 342,356 | 24,603.9 | 172.3 |
| <i>Jaguar-Land Rover</i> | | | | | |
| Hangzhou Jaguar-Land Rover | – | 7,618 | 428,429 | – | 5,523.9 |
| <i>JAC Volkswagen-Sihao</i> | | | | | |
| Beijing Yizhuang JAC Volkswagen-Sihao ⁽³⁾ | – | 1,734 | 543 | – | (68.7) |
| Qingdao JAC Volkswagen-Sihao | – | – | 726 | – | – |
| Subtotal | 8,355,562 | 8,140,123 | 8,528,913 | (2.6) | 4.8 |
| Others ⁽⁴⁾ | 53,616 | 38,658 | 4,217 | (27.9) | (89.1) |
| Total | 8,409,178 | 8,178,781 | 8,533,130 | (2.7) | 4.3 |

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Notes:

- (1) Revenue generated by each of our 4S dealership stores for Porsche, Audi and Mercedes-Benz in Beijing and Tianjin decreased from 2018 to 2019, primarily due to the decrease in sales volume as a result of the transition of automobile models to fulfill the new requirements of the China Six Standard which have been implemented in Tianjin and Beijing since July 1, 2019 and January 1, 2020, respectively. This transition between models had a significant negative impact on the automobile sales performance of our dealership stores in Beijing and Tianjin in 2019 as consumers were inclined to hold off purchase decisions until the transition was completed. We adopted a conservative approach when purchasing our inventory for 2019 because automobiles manufactured under the old emission requirements had to be all sold off before the new requirements took effect. These old model automobiles were often sold at reduced prices due to the scheduled transition. As manufacturers just transitioned to new models of automobiles that meet the new emission requirements as well, for a while the supplies of these new model automobiles available to us were limited in 2019. In addition, according to the Frost & Sullivan Report, as the China Six Standard was different from the emission standard set by the European Union, some of the imported automobile models that did not comply with China's emission standard were not allowed to enter China's market, which had led to a decrease in the volume of imported automobiles in China during the year of 2019. Meanwhile, automobile manufacturers are relatively more willing to supply the new automobiles, which comply with the emission requirements in China, to the dealers in areas where such new emission standard has been implemented. All of these factors contributed to the decrease in our sales for 2019 compared with 2018. Revenue generated by each of our 4S dealership stores for Porsche in Beijing and Tianjin, one of our 4S dealership stores for Audi in Beijing and our 4S dealership store for Mercedes-Benz in Beijing decreased for the year ended December 31, 2020 as compared to the revenue generated by these dealership stores for the year ended December 31, 2019, primarily because following the outbreak of COVID-19, during the Chinese New Year's holidays at the end of January 2020, the government extended the public holiday period during which businesses remained closed. For the remainder of February and March 2020, we implemented staggered work shifts and only had part of our staff on duty during work hours. In the meanwhile, residents in China reduced non-essential activities as a result of COVID-19 concerns and postponed test-drives or automobile purchases.
- (2) Revenue generated by both of our 4S dealership stores for imported Volkswagen in Qingdao and Weifang decreased from 2018 to 2019, primarily due to the decrease in sales volume because Shandong province began to implement the China Six Standard since July 1, 2019. Except for Touareg (途锐), which met such emission standard, all other imported Volkswagen models only met the China Five Standard and therefore, were not qualified for sale. Revenue generated by Hangzhou imported Volkswagen decreased in 2019 primarily because the premises of this store were changed to operate Jaguar-Land Rover in 2019. We disposed of all of our dealership stores for imported Volkswagen by the end of 2020 due to our strategy to focus our operations on luxury and ultra-luxury brands.
- (3) Due to changes of operations and our strategy to focus our operations on luxury and ultra-luxury brands, we and the manufacturer agreed to terminate the dealership agreement and therefore, we closed the dealership stores for JAC Volkswagen-Sihao in Beijing and Qingdao in September 2020.
- (4) Others primarily represented revenue generated by certain of our PRC subsidiaries, other than the operating entities of our dealership stores, from insurance agency services and sale of accessories and other automobile-related products.

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The table below sets for the gross profit and gross profit margin for each of our dealership stores for the years indicated:

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| <i>Porsche</i> | | | | | | |
| Beijing Yizhuang Porsche Center ⁽¹⁾ | 110,921 | 11.0 | 90,184 | 9.2 | 93,118 | 10.3 |
| Beijing Haidian Porsche Center ⁽¹⁾ | 135,261 | 12.4 | 99,249 | 10.1 | 109,255 | 11.8 |
| Tianjin Airport Porsche Center ⁽¹⁾ | 62,263 | 9.7 | 46,684 | 8.2 | 49,512 | 9.3 |
| Chengdu Jinniu Porsche Center ⁽¹⁾ | 115,634 | 12.8 | 109,521 | 10.6 | 129,764 | 11.5 |
| Chengdu Airport Porsche Center ⁽¹⁾ | 113,277 | 12.8 | 115,373 | 11.3 | 124,216 | 11.5 |
| <i>Audi</i> | | | | | | |
| Beijing Yizhuang Audi ⁽²⁾ | 31,971 | 3.4 | 47,524 | 5.8 | 52,448 | 7.1 |
| Beijing Haidian Audi ⁽²⁾ | 17,403 | 3.1 | 34,059 | 7.4 | 32,402 | 7.0 |
| <i>Mercedes-Benz</i> | | | | | | |
| Beijing Haidian Mercedes-Benz ⁽³⁾ | 166,587 | 8.7 | 182,252 | 10.0 | 211,756 | 12.0 |
| <i>Imported Volkswagen</i> | | | | | | |
| Qingdao Imported Volkswagen ⁽⁴⁾ | 2,079 | 1.5 | 5,879 | 5.7 | 9,827 | 11.0 |
| Weifang Imported Volkswagen ⁽⁴⁾ | 1,582 | 3.5 | 128 | 0.3 | 4,809 | 9.4 |
| Hangzhou Imported Volkswagen ⁽⁴⁾ | 12,427 | 7.6 | 11,468 | 10.9 | – | – |
| <i>Bentley</i> | | | | | | |
| Qingdao Bentley ⁽⁵⁾ | 2,015 | 3.2 | 8,537 | 12.8 | 12,347 | 13.9 |
| <i>Volvo</i> | | | | | | |
| Beijing Haidian Volvo ⁽⁶⁾ | 160 | 31.4 | (7,130) | (5.7) | 24,740 | 7.2 |
| <i>Jaguar-Land Rover</i> | | | | | | |
| Hangzhou Jaguar-Land Rover ⁽⁶⁾ | – | – | (1,234) | (16.2) | 4,997 | 1.2 |
| <i>JAC Volkswagen-Sihao</i> | | | | | | |
| Beijing Yizhuang JAC Volkswagen-Sihao ⁽⁷⁾ | – | – | 1,046 | 60.3 | 234 | 43.1 |
| Qingdao JAC Volkswagen-Sihao ⁽⁷⁾ | – | – | – | – | (29) | (4.0) |
| Subtotal | 771,580 | 9.2 | 743,540 | 9.1 | 859,396 | 10.1 |
| Others ⁽⁸⁾ | 53,616 | 100.0 | 38,658 | 100.0 | 4,217 | 100.0 |
| Total | 825,196 | 9.8 | 782,198 | 9.6 | 863,613 | 10.1 |

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Notes:

- (1) The gross profit margin of each of our 4S dealership stores for Porsche decreased from 2018 to 2019, primarily due the decrease in average retail price because certain old model automobiles were sold at reduced prices due to the scheduled transition of models to be in compliance with the China Six Standard. The gross profit margin of each of our Porsche dealership stores increased in 2020, primarily due to the increase in average retail price.
- (2) The gross profit margin of Beijing Yizhuang Audi increased during the Track Record Period, primarily due to the increase in average retail price of new automobiles. The gross profit margin for Beijing Haidian Audi decreased in 2020, primarily due to the reduced business volume of after-sales services as a result of the COVID-19 pandemic.
- (3) The gross profit margin of our 4S dealership store for Mercedes-Benz increased during the Track Record Period, primarily due to (i) increases in average retail price of automobiles; and (ii) increases in revenue generated from after-sales services.
- (4) The gross profit margins of our 4S dealership stores for imported Volkswagen in Qingdao and Hangzhou increased during the Track Record Period, primarily because after the implementation of the China Six Standard in Shandong and Zhejiang since July 1, 2019, Touareg (途锐), which had a relatively higher retail price, was the main model sold by these dealership stores as it was the only model of imported Volkswagen that met the China Six Standard. The gross profit margin of our 4S dealership store for imported Volkswagen in Weifang decreased from 2018 to 2019, primarily because certain old model automobiles were sold at reduced prices due to the transition of models to be in compliance with the China Six Standard.
- (5) The gross profit margin of our 4S dealership store for Bentley increased during the Track Record Period primarily due to the increases in average retail price and the launch of new models in 2019, which stimulated the sales performance in 2020.
- (6) Our 4S dealership stores for Volvo and Jaguar-Land Rover recorded gross losses in 2019, primarily because (i) during the ramp-up period, the business volume of after-sales services of these two dealership was limited which resulted in a lower portion of revenue generated from after-sales services; and (ii) the sales volume of automobiles during the ramp-up period was relatively low, leading to a limited amount of rebates received by us from the automobile manufacturers. The gross profit margins of these dealership stores improved in 2020 as a result of the increase in operation scale.
- (7) We were authorized by the manufacturer of JAC Volkswagen-Sihao to open and operate two 4S dealership stores in Beijing and Qingdao in September 2019. Due to changes in operations and our strategy to focus our operations on luxury and ultra-luxury brands, we and the manufacturer agreed to terminate the dealership agreements and close the dealership stores for JAC Volkswagen-Sihao in September 2020.
- (8) Others primarily represented gross profit and gross profit margin derived from certain of our PRC subsidiaries, other than the operating entities of our dealership stores, from insurance agency services and sale of accessories and other automobile-related products.

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The table below sets forth the operating profit and operating margin for each of our dealership stores for the years indicated:

| | Year Ended December 31, | | | | | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2018 | | 2019 | | 2020 | |
| | Operating Profit ⁽¹⁾ | Operating Margin ⁽¹⁾ | Operating Profit ⁽¹⁾ | Operating Margin ⁽¹⁾ | Operating Profit ⁽¹⁾ | Operating Margin ⁽¹⁾ |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Porsche | | | | | | |
| Beijing Yizhuang Porsche Center | 73,408 | 7.3 | 57,641 | 5.9 | 62,846 | 7.0 |
| Beijing Haidian Porsche Center | 67,954 | 6.2 | 48,988 | 5.0 | 69,495 | 7.5 |
| Tianjin Airport Porsche Center | 36,071 | 5.6 | 22,154 | 3.9 | 25,453 | 4.8 |
| Chengdu Jinniu Porsche Center | 89,260 | 9.9 | 86,882 | 8.4 | 97,404 | 8.6 |
| Chengdu Airport Porsche Center ⁽²⁾ | 83,584 | 9.4 | 88,425 | 8.7 | 91,859 | 8.5 |
| Audi | | | | | | |
| Beijing Yizhuang Audi | (12,402) | (1.3) | 657 | 0.1 | 18,204 | 2.5 |
| Beijing Haidian Audi | (23,365) | (4.2) | (7,874) | (1.7) | 4,812 | 1.0 |
| Mercedes-Benz | | | | | | |
| Beijing Haidian Mercedes-Benz | 77,152 | 4.0 | 99,076 | 5.5 | 133,863 | 7.6 |
| Imported Volkswagen | | | | | | |
| Qingdao Imported Volkswagen | (6,047) | (4.3) | (2,511) | (2.4) | 5,678 | 6.4 |
| Weifang Imported Volkswagen | (7,568) | (16.5) | (8,452) | (17.9) | (2,789) | (5.4) |
| Hangzhou Imported Volkswagen | 2,090 | 1.3 | 3,595 | 3.4 | - | - |
| Bentley | | | | | | |
| Qingdao Bentley | (1,229) | (2.0) | 2,178 | 3.3 | 6,022 | 6.8 |
| Volvo | | | | | | |
| Beijing Haidian Volvo | (556) | (109.2) | (21,532) | (17.1) | 9,317 | 2.7 |
| Jaguar-Land Rover | | | | | | |
| Hangzhou Jaguar-Land Rover | - | - | (1,866) | (24.5) | (13,620) | (3.2) |
| Foshan Jaguar-Land Rover | - | - | - | - | (738) | - |
| JAC Volkswagen-Sihao | | | | | | |
| Beijing Yizhuang JAC Volkswagen-Sihao | - | - | (104) | (6.0) | (454) | (83.6) |
| Qingdao JAC Volkswagen-Sihao | - | - | (76) | - | (1,531) | (210.9) |
| | <u>378,352</u> | <u>4.5</u> | <u>367,181</u> | <u>4.5</u> | <u>505,821</u> | <u>5.9</u> |

Notes:

- (1) The operating profit represents the profit before tax generated by each dealership store, excluding certain non-operating items, namely interest income, one-off compensation income, gain on disposal of financial assets at fair value through profit or loss, investment income, gain on disposal of subsidiaries, finance costs, listing expenses and the compensation/rebates granted by the manufacturer of JAC Volkswagen-Sihao for the closure of the two dealership stores in Beijing and Qingdao. The operating margin for each dealership store is equal to the operating profit for the year divided by revenue generated by each dealership store for the same year.
- (2) The operating profit of Chengdu Airport Porsche Center increased from 2019 to 2020, while its operating margin decreased slightly from 2019 to 2020, primarily due to increases in selling and distribution expenses and administrative expenses in 2020, which resulted in a lower growth rate of operating profit during the year as compared to revenue.

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For analysis on the fluctuations of the operating margins of other dealership stores during the Track Record Period, see discussions above on the fluctuations of the gross profit margin generated by each dealership store.

The table below sets forth the net profit/loss for each of our dealership stores for the years indicated:

| | Year Ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | Net | Net | Net |
| | Profit/(Loss) | Profit/(Loss) | Profit/(Loss) |
| | RMB'000 | RMB'000 | RMB'000 |
| <i>Porsche</i> | | | |
| Beijing Yizhuang Porsche Center | 60,010 | 48,045 | 53,408 |
| Beijing Haidian Porsche Center | 37,312 | 24,899 | 43,756 |
| Tianjin Airport Porsche Center | 23,888 | 12,768 | 15,850 |
| Chengdu Jinniu Porsche Center | 66,622 | 65,252 | 74,700 |
| Chengdu Airport Porsche Center | 59,842 | 64,810 | 68,456 |
| <i>Audi</i> | | | |
| Beijing Yizhuang Audi ⁽¹⁾ | (23,856) | (8,444) | 14,988 |
| Beijing Haidian Audi ⁽¹⁾ | (31,549) | (13,954) | 127 |
| <i>Mercedes-Benz</i> | | | |
| Beijing Haidian Mercedes-Benz | 45,038 | 64,457 | 90,864 |
| <i>Imported Volkswagen</i> | | | |
| Qingdao Imported Volkswagen ⁽²⁾ | (6,046) | (2,509) | 5,678 |
| Weifang Imported Volkswagen ⁽²⁾ | (7,567) | (8,451) | (2,789) |
| Hangzhou Imported Volkswagen | 1,746 | 3,595 | – |
| <i>Bentley</i> | | | |
| Qingdao Bentley ⁽³⁾ | (1,229) | 2,178 | 4,840 |
| <i>Volvo</i> | | | |
| Beijing Haidian Volvo ⁽⁴⁾ | (556) | (22,157) | 8,479 |
| <i>Jaguar-Land Rover</i> | | | |
| Hangzhou Jaguar-Land Rover ⁽⁵⁾ | – | (1,866) | (14,253) |
| Foshan Jaguar-Land Rover ⁽⁵⁾ | – | – | (710) |
| <i>JAC Volkswagen-Sihao</i> | | | |
| Beijing Yizhuang JAC Volkswagen-Sihao ⁽⁶⁾ | – | (106) | 313 |
| Qingdao JAC Volkswagen-Sihao ⁽⁶⁾ | – | (76) | 608 |
| Subtotal | 223,655 | 228,441 | 364,315 |
| Others ⁽⁷⁾ | (5,331) | (2,964) | (35,266) |
| One-off compensation income ⁽⁸⁾ | 86,171 | – | – |
| Listing expenses | (3,750) | (589) | (22,558) |
| Tax expenses in relation to the Corporate reorganization | (30,562) | – | – |
| Total | 270,183 | 224,888 | 306,491 |

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Notes:

- (1) Beijing Yizhuang Audi and Beijing Haidian Audi recorded net losses for the years ended December 31, 2018 and 2019, while these two dealership stores became profitable for the year ended December 31, 2020, primarily due to (i) an increase in other income in connection with the rebates received from the automobile manufacturer as a result of the upgrade of our showrooms; (ii) a decrease in operating expenses; and (iii) a decrease in impairment losses on automobile inventories.
- (2) Qingdao Imported Volkswagen recorded net losses for the years ended December 31, 2018 and 2019, while this dealership store became profitable for the year ended December 31, 2020, primarily due to the increases in gross profit because after the implementation of the China Six Standard in Shandong since July 1, 2019, Touareg (途锐), which had a relatively higher retail price, was the main model sold by this dealership store as it was the only model of imported Volkswagen that met the China Six Standard. The net losses recorded by Weifang Imported Volkswagen increased from 2018 to 2019, primarily due to the decrease in gross profit because certain old model automobiles were sold at reduced prices due to the transition of models to be in compliance with the China Six Standard. The net losses derived from Weifang Imported Volkswagen decreased in 2020, mainly due to the increase in gross profit for the same reason as discussed above for Qingdao Imported Volkswagen.
- (3) Qingdao Bentley recorded net losses for the year ended December 31, 2018, while its profitability improved for the years ended December 31, 2019 and 2020, primarily due to the launch of new models in 2019, which stimulated the sales performance in 2020.
- (4) The net losses recorded by our 4S dealership store for Volvo increased from 2018 to 2019, primarily because during the ramp-up period, the business volume of after-sales services and the sales performance of this dealership store were limited, while the operating expenses incurred were significant. The profitability of this dealership store improved in 2020, mainly due to the increase in operation scale.
- (5) The net losses recorded by Hangzhou Jaguar-Land Rover increased from 2019 to 2020, primarily due to the increase in operating expenses during the first full year's operations in 2020. We did not generate revenue from Foshan Jaguar-Land Rover for 2020, while we incurred operating expenses, primarily consisting of depreciation and amortization of property, plant and equipment, expenses for consumables and office expenses for this newly acquired dealership store.
- (6) We were authorized by the manufacturer of JAC Volkswagen-Sihao to open and operate two 4S dealership stores in Beijing and Qingdao in September 2019. Due to changes in operations and our strategy to focus our operations on luxury and ultra-luxury brands, we and the manufacturer agreed to terminate the dealership agreements and close the dealership stores for JAC Volkswagen-Sihao in September 2020. These two dealership stores turned net losses into profits in 2020 primarily due to the compensation received from the automobile manufacturer for the closure of the stores.
- (7) Others primarily represented (i) the operating expenses borne at the Group level; (ii) net profits generated by certain of our PRC subsidiaries, other than the operating entities of our dealership stores, from advertising services, pre-owned automobile brokerage services and pawn loan services; and (iii) interest income from loans to related parties and investment income from financial assets at fair value through profit or loss. The net losses increased from 2019 to 2020, primarily due to (i) an increase in provision for impairment of other receivables; (ii) an increase in management consulting fees that we paid to a third-party consulting company; (iii) increases in expenses in relation to information technology support services, bonuses and salaries paid at the Group level and depreciation and amortization of property, plant and equipment due to the additions of new office furniture and equipment, all of which resulted in an increase in administrative expenses borne at the Group level; and (iv) a decrease in net profits derived from Tianjin Liya for its advertising services as a result of the outbreak of COVID-19.
- (8) The one-off compensation income represented the after-tax compensation income that we received in 2018 from a lawsuit in connection with the land use rights of certain of our properties in Beijing.

Business Relationship with Porsche

We obtained the dealership of Porsche in Northern China in 2002 and gradually rely on Porsche for a significant percentage of our business. For the years ended December 31, 2018, 2019 and 2020, the revenue generated from the sales of Porsche amounted to approximately 53.9%, 56.2% and 53.5% of the total revenue, and the gross profit generated from the sales of Porsche amounted to approximately 65.1%, 58.9% and 58.6% of the total gross profit. The dealership agreements that we entered into with the manufacturer of Porsche are generally renewable upon mutual agreements. The expiration date of the latest dealership agreements we enter into with the manufacturer of Porsche is December 31, 2023. If our dealership agreements with the manufacturer of Porsche are renewed on terms less favorable to us or we are unable to renew such contracts at all, we would not be able to continue to sell the automobile models of Porsche, and our business, financial condition and results of operations would be materially and adversely affected.

According to the Frost & Sullivan Report and to the best information and knowledge of our Directors, (i) we have successfully sustained business relationship with the manufacturer of Porsche for over 17 years; (ii) we ranked first in terms of revenue of the Porsche dealership market in Beijing, Tianjin and Chengdu in 2020; (iii) we have no intention to terminate the business relationship with the manufacturer of Porsche; (iv) we have a proven track record of business collaboration with the manufacturer of Porsche and there has not been any disruption in the business relationship between us during the Track Record Period; and (v) we currently satisfy and expect to continue to satisfy the selection criteria set by the manufacturer of Porsche as its automobile dealership service provider.

Considering our business relationship with the manufacturer of Porsche has been and is expected to remain mutually beneficial as mentioned above, our Directors are of the view that, it is unlikely that our business relationship with it will experience any material adverse change or be terminated. Although we consider that it is unlikely that the manufacturer of Porsche will terminate its business relationship with us for the reasons set out above, we will continue to enhance and diversify our brand offerings in order to reduce our reliance on it.

Network Expansion

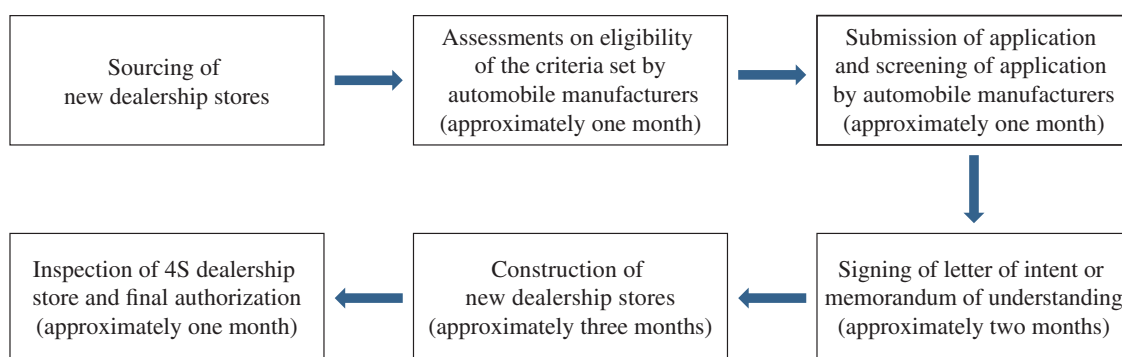
Since 2007, we have been selectively expanding our network outside Beijing. According to the Frost & Sullivan Report, the luxury and ultra-luxury automobile market in China has experienced rapid development in the past five years. Many automobile dealership groups are in the process of completing the deployment of their sales network nationwide. We believe that it is essential to establish our presence in the major regional automobile market in China for our long-term growth. In 2012 and 2014, we expanded into the Shandong market and launched our 4S dealership stores for imported Volkswagen in Qingdao and Weifang. In 2016, we acquired the equity interests of Chengdu Xinbao and Chengdu Jinbao and started to operate two 4S dealership stores for Porsche in Chengdu. We have been executing an expansion plan that focuses on provincial capital and other tier-one and tier-two cities with established regional automobile markets. In addition, we are committed to expanding our brand coverage. We

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obtained authorization from the manufacturer and opened our first dealership store for Volvo in 2018. In order to further expand our operations in the luxury and ultra-luxury automobile dealership market, we established our first dealership store for Jaguar-Land Rover in Hangzhou, Zhejiang province in 2019. This store is also the first Jaguar-Land Rover SPACE experience center, which is equipped with various digital devices, allowing customers to obtain new car price quotes through mobile phones and experience the one-stop and paperless car purchasing process. In December 2020, we acquired Laifu Auto which had obtained authorization to operate a 4S dealership store for Jaguar-Land Rover in Foshan, Guangdong province.

Establishment of New 4S Dealership Stores

We employ a standardized procedure for establishing new 4S dealership stores. The flowchart below illustrates the typical process for applying for the establishment of new dealership stores based on information available from the websites of our automobile manufacturers:



Note: The time it takes for each step is based on the approximate time we took during the establishment of our existing dealership stores during the Track Record Period.

- ***Sourcing of new dealership stores*** – Automobile manufacturers generally publish their intent to establish new dealership stores and recruit new automobile dealers on their official websites.
- ***Assessments on the eligibility of the criteria set by automobile manufacturers*** – Automobile manufacturers generally make available on their official websites the application form, dealer selection criteria, the geographical regions that are open to network expansion of dealership stores in China and the size and layout requirements of new dealership stores. We generally assess our eligibility with respect to the establishment of a new dealership store based on the criteria published by the automobile manufacturers. We intend to focus our operations on the luxury and ultra-luxury automobile brands and plan to open new 4S dealership stores for the brands that we currently operate.

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- ***Submission of application and screening of application by automobile manufacturers*** – We generally submit our dealership application through the website of automobile manufacturers or other channels stipulated by the automobile manufacturers. For each new dealership store that we plan to open, we first submit to the automobile manufacturer an application, which includes, among others, a feasibility study, planned location and building plans. The specific city in which a new dealership store is going to establish is subject to automobile manufacturers' expansion plans, which identify the markets they target for new stores and other factors, including, among others, the local per capita disposable income, consumption patterns and automobile ownership rates. We generally have the discretion to select the location/venue of a new dealership store in the target city. In selecting a new store venue in a city, we consider various factors, including, among others, convenience and ease of access, traffic flow, parking availability, proximity to affluent regions, distance from other automobile dealership stores, and size and gross floor areas of the site. We are required to provide the manufacturer with detailed information of the land, including, among others, proof for the land use rights we have obtained, lease agreements we have entered, the location, site area and approved period of use in relation to the land and/or properties. The automobile manufacturer reviews each application they receive and may conduct a site visit to the venue of the proposed new dealership store. We may further supplement our application materials as needed and provide a presentation of our proposal before the relevant automobile manufacturer.
- ***Signing of letter of intent or memorandum of understanding*** – Once our plan has been approved by the automobile manufacturer, we will enter into a letter of intent or memorandum of understanding, as the case may be, with the automobile manufacturer. The automobile manufacturer usually provides us with detailed guidelines on the design and construction of new dealership stores. The letter of intent may contain certain conditions to be fulfilled before execution of the dealership agreement, such as establishment of the new dealership store to satisfy the manufacturer's requirements and standards.
- ***Construction of new dealership stores*** – We construct or decorate the new dealership store pursuant to the requirements of the automobile manufacturer.
- ***Inspection of 4S dealership store and final authorization*** – The automobile manufacturer conducts inspections on the new 4S dealership store after completion of construction to ensure it complies with its layout requirements. Upon passing the site inspection, we usually execute the dealership agreement with the automobile manufacturer and commence operations of the dealership store. We are generally required to carry out sales and marketing activities within the regions agreed between us and the manufacturers, while we normally have discretion and flexibility in determining the form and content of our marketing activities.

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Sale of Automobiles

We derive a substantial majority of our revenue from the sale of automobiles. All of our sale and purchase transactions are settled in RMB. For the years ended December 31, 2018, 2019 and 2020, our revenue generated from the sale of automobiles was RMB7,346.8 million, RMB7,069.3 million and RMB7,462.5 million, respectively, accounting for approximately 87.4%, 86.4% and 87.5% of our total revenue for the same years, respectively.

The table below sets forth the breakdown of revenue generated from the sale of automobiles, sales volume and average retail price by automobile brand for the years indicated:

| | Year Ended December 31, | | | | | | | | |
|--------------------------------|-------------------------|-----------------|---|------------------|-----------------|---|------------------|-----------------|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Revenue | Sales Volume | Average retail price ⁽¹⁾ | Revenue | Sales Volume | Average retail price ⁽¹⁾ | Revenue | Sales Volume | Average retail price ⁽¹⁾ |
| | | | | | | | | | |
| Ultra-luxury brands | | | | | | | | | |
| Porsche | 4,043,752 | 5,278 | 766 | 4,067,065 | 5,453 | 746 | 4,034,850 | 5,139 | 785 |
| Bentley. | 59,666 | 26 | 2,295 | 61,932 | 24 | 2,581 | 80,657 | 30 | 2,689 |
| Luxury brands | | | | | | | | | |
| Mercedes-Benz | 1,691,542 | 3,496 | 484 | 1,596,376 | 3,270 | 488 | 1,514,846 | 3,100 | 489 |
| Audi | 1,255,196 | 4,309 | 291 | 1,005,894 | 3,481 | 289 | 994,369 | 3,089 | 322 |
| Volvo. | 502 | 2 | 251 | 120,294 | 409 | 294 | 319,942 | 1,108 | 289 |
| Jaguar-Land Rover | - | - | - | 7,617 | 15 | 508 | 399,605 | 760 | 526 |
| Medium-level brand | | | | | | | | | |
| Imported Volkswagen | 296,092 | 1,002 | 296 | 209,420 | 573 | 365 | 116,951 | 242 | 483 |
| Entry-level brand | | | | | | | | | |
| JAC Volkswagen-Sihao | - | - | - | 744 | 8 | 93 | 1,235 | 12 | 103 |
| Total | 7,346,750 | 14,113 | 520.6 | 7,069,342 | 13,233 | 534.2 | 7,462,455 | 13,480 | 553.6 |

Note:

- (1) The average retail price of automobiles under a particular brand is calculated on the basis of revenue attributable to automobiles under the brand for the year divided by sales volume of that brand for the same year.

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According to the relevant provisions of the Import and Export Tariff Regulations of the PRC (中華人民共和國進出口關稅條例), unless otherwise stipulated by laws and administrative regulations, the China customs impose tariffs on imported goods. As confirmed by our Directors, automobile importers shall pay tariffs on the import of automobiles in accordance with the law, and the relevant taxes and fees will be reflected in the price of the automobiles, which will ultimately be borne by the automobile consumers, while the production and sales of domestic automobiles do not involve the payment of tariffs.

Pricing

The price for a particular automobile is generally determined based on various factors, including the prevailing market price suggested by the automobile manufacturer, the market demand for a particular model, the number of automobiles of the same model in inventory and whether the model is imported or produced domestically by automobile manufacturers and/or their PRC joint ventures. The retail prices of automobiles we sell are generally set with reference to the automobile manufacturers' suggested prices but we retain flexibility to determine the actual retail price and the dealership agreements usually do not impose a specific price adjustment range on the price suggested by the manufacturers. In addition, for most of the new automobiles that we sell, we sell and install optional accessories to tailor the automobile to the personal preferences of our customers.

The table below sets forth the retail price range of new automobiles for each brand we operated during the Track Record Period:

| | Year Ended December 31, | | |
|----------------------------------|---|---|---|
| | 2018 | 2019 | 2020 |
| | Retail price per unit ⁽¹⁾ <i>RMB'000</i> | Retail price per unit ⁽¹⁾ <i>RMB'000</i> | Retail price per unit ⁽¹⁾ <i>RMB'000</i> |
| Ultra-luxury brands | | | |
| – Porsche | 514 to 5,036 | 496 to 4,320 | 484 to 3,143 ⁽²⁾ |
| – Bentley | 2,227 to 5,080 | 2,200 to 5,950 | 2,760 to 4,654 ⁽²⁾ |
| Luxury brands | | | |
| – Mercedes-Benz | 174 to 4,239 | 176 to 3,939 | 160 to 3,729 |
| – Audi | 129 to 2,206 | 124 to 1,488 | 138 to 995 ⁽²⁾ |
| – Volvo | 283 to 305 | 179 to 727 | 180 to 708 |
| – Jaguar-Land Rover | – | 225 to 1,370 | 196 to 3,213 |
| Medium-level brand | | | |
| – Imported Volkswagen | 148 to 831 | 147 to 837 | 463 to 770 |
| Entry-level brand | | | |
| – JAC Volkswagen-Sihao | – | 104 to 128 | 83 to 125 |

Notes:

(1) The retail price per unit represents the transaction value, which is inclusive of value-added tax, consumption tax and other relevant taxes of each automobile we sell. The price for automobiles of each brand varies significantly due to a number of factors, including, among others, the models (domestically manufactured or imported), vehicle configuration and the customized interior and exterior accessories that customers purchase for their automobiles.

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- (2) The retail price range for new automobiles of Porsche, Bentley and Audi decreased in 2020, primarily due to the variation in the specific automobile models we sold each year. The automobile model which was sold at the highest price in 2020 was different from that in 2019.

Arrangement with Customers

Written agreements are required to enter into with our customers in respect of the sale of automobiles. Upon entering into the contract, our customers are generally required to pay a fixed amount of deposit, which is generally determined based on the selling price of the particular model or brand of the automobile that the customers purchase. For the models in stock, we typically deliver the automobiles within a week after our receipt of the full payment. For customers who finance the purchase of the automobiles through loans arranged by us with the financial institutions, we generally deliver the automobiles upon confirmation of approval of the loan granted by such financial institutions. During the Track Record Period, we did not provide guarantees to any banks or financial institutions against loans extended to our customers for automobile purchases.

We allow our customers to return defective products to us under limited circumstances. We strictly follow the 3R Provisions for the return and replacement of automobiles. For the circumstances leading to the return of automobiles, see “Regulatory Overview — Regulations Relating to Guarantees for Family Car Products” in this prospectus for details. During the Track Record Period, one automobile of Audi, three automobiles of imported Volkswagen and two automobiles of imported Volkswagen have been returned due to quality issues, respectively. The costs that we incurred in connection with these returns have been fully reimbursed by the relevant manufacturers. During the Track Record Period and up to the Latest Practicable Date, other than the recalls conducted by automobile manufacturers from time to time to remedy problems with certain automobile models, details of which are set out under “Our Business — Automobile Recalls” in this section, we had no significant return of defective automobiles from our customers.

Incentive Rebates from Automobile Manufacturers

As is common in the industry, automobile manufacturers provide us with incentive rebates, which are generally determined based on various factors, including the purchase volume, sales volume, customer satisfaction and other performance indicators at the dealership store-level set by the relevant automobile manufacturers, depending on their policies. The criteria of incentive rebates offered vary significantly among automobile manufacturers.

Generally, automobile manufacturers provide us with specific details regarding their incentive rebate policies on a quarterly, semi-annual or annual basis. At the start of each period, the automobile manufacturers will formulate their specific business plans for each dealership store with reference to which the rebates will be calculated on a per dealership store basis. The business plans provided by the automobile manufacturers vary from time to time, but a

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majority of them are calculated with reference to sales volume. In general, sales volume is the primary performance indicator that affects the amount of rebates that we receive, while purchase volume is another common performance indicator that affects the amount of rebates that we receive.

Automobile manufacturers also offer certain types of incentive rebates that are not purely based on sales or purchase volume. For example, manufacturers may offer special rebates for specific automobile models for various purposes, including promoting the manufacturer's model rollout strategy, reacting to market conditions and encouraging the reduction of inventory of a specific automobile model at the end of its product life cycle. Manufacturers may also offer incentives based on a wide range of metrics measuring the service quality of a dealership store. Such metrics include, among others, marketing performance, training evaluation, customer satisfaction and customer retention. The amount of rebates that we are able to receive is variable based on the manufacturers' evaluation results on our performance during a particular period.

The qualifications that we are required to meet in return for rebates vary among different brands, which primarily include fulfilment of monthly, quarterly or annual sales targets, sales volume of specific automobile models, license plate registration rate and procurement volume. The key criteria measured by each automobile manufacturer in determining the amount of rebates are set out below:

Porsche

- ***Rebates in connection with test-drive automobiles:*** Porsche grants rebates for test-drive automobiles based on the service period for various models used for test-driving purposes. The amount of rebates is determined at a rate ranging between 5.0% and 10.0% of the prevailing market price suggested by the manufacturer so long as the test-drive automobiles have been in service for six to 12 months.
- ***Rebates based on sales performance:*** Porsche grants variable rebates at a maximum rate of 4.5% by taking into account a number of metrics, including, among others, the marketing plan, services quality, customer satisfaction and customer commitment, the participation of training and fulfilment of sales target. The rebate evaluation process is generally conducted on a semi-annual basis.

Bentley

- ***Rebates based on sales performance:*** Bentley grants a maximum of 3.0% rebates based on the fulfilment of quarterly sales target, number of orders placed for automobile procurement and the fulfilment of annual sales target.

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Audi

- ***Rebates based on sales performance:*** Audi primarily grants (i) basic rebates in the form of discounts on procurement of automobiles, which is generally determined based on a rate ranging from 6.0% to 8.0% of the prevailing market price suggested by the manufacturer; (ii) service quality-based bonus at a rate ranging between 0.3% and 0.5%, which is determined by taking into account a number of metrics, including customer loyalty, marketing performance and sales process specification; and (iii) sales volume-based bonus at a rate ranging between 1.1% and 2.3%, depending on a dealer's performance on market development, fulfillment level of monthly sales target and sales volume of certain specific models.

Mercedes-Benz

- ***Rebates based on the sales performance:*** Mercedes-Benz conducts annual or quarterly assessments on the sales performance of dealers and grants variable rebates at a rate ranging between 12.0% and 13.5% by assessing the fulfillment of sales target and the number of plates registered. Mercedes-Benz also grants certain fixed amount of rebates based on the sales performance of particular models designated by the manufacturer during a specific period.

Jaguar-Land Rover

- ***Rebates in connection with procurement:*** Jaguar-Land Rover provides fixed discounts at a rate of 8.0% for certain automobile models, which are deducted directly from the price of automobiles.
- ***Rebates based on sales performance:*** Jaguar-Land Rover grants variable rebates at a maximum rate of 4.5% by taking into account a number of factors, including the fulfillment of wholesale target and retail target, services quality, customer satisfaction, handling of customer complaints, marketing performance and training evaluation. It also grants fixed amount of rebates based on different models for used car replacement.

Volvo

- ***Rebates based on sales performance:*** Volvo provides variable rebates at a maximum rate of 5.8% of the procurement price by taking into account various metrics of a dealership store, including, among others, the sales volume, customer satisfaction, marketing performance and overall operating efficiency. It also grants fixed amount of rebates at a rate of 6.0% of the procurement price based on the fulfillment of sales target of particular models within a specified period.

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These rebates are settled periodically, generally on a monthly or quarterly basis, by cash or deducting the price payable by us in the subsequent purchases of automobiles, spare parts or accessories. For the years ended December 31, 2018, 2019 and 2020, we recorded rebates of RMB392.3 million, RMB351.4 million and RMB472.9 million from our manufacturers, respectively, accounting for 5.3%, 5.0% and 6.3%, respectively, of our revenue from the sale of automobiles for the same years.

Payment to Automobile Manufacturers and Source of Financing

During the Track Record Period, except for the manufacturer of Mercedes-Benz which granted us a credit period of approximately 15 days for the settlement of automobile purchase, our automobile suppliers required us to pay the full purchase price before delivery for each order that we placed for procurement of automobiles. As of the Latest Practicable Date, we had entered into financing arrangements with two manufacturer-designated financing companies to obtain funds for our procurement of new automobiles of Audi and Mercedes-Benz. These two financing companies are primarily engaged in providing automobile financing services in China and are Independent Third Parties. The salient terms of the revolving credit agreements that we entered into with these financing companies for the purpose of automobile procurement are as follows:

- The loan drawn down pursuant to the revolving credit agreement shall be exclusively used for procuring the automobiles;
- The financing companies either pay directly, on behalf of and in the name of our Group, to the manufacturer, or transfer the funds to our designated account and we will make payments to the relevant automobile manufacturers for the automobiles purchased or to be purchased by us;
- As conditions to the grant of the loan, we are required to provide certain deposits, mortgages and/or guarantees as security to the automobile financing companies;
- The interest rate of the loan under the facility agreement is generally 7.6% per annum or determined with reference to the one-year loan prime rate (LPR) of the PRC; and
- The loan shall be repayable by not later than 180 days to 270 days from the day of drawdown, the maturity period of which may vary among different automobile financing companies.

In addition to obtaining financing services from automobile financing companies, we also use bank borrowings to finance our daily operations. See “Financial Information — Indebtedness” for details of our bank and other borrowings.

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After-sales Services

In addition to the sale of automobiles, each of our 4S dealership stores provides comprehensive after-sales services, which include repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and license plate registration services. After-sales services generally have a higher margin compared with the sale of automobiles, and therefore provide a stable source of gross profit. We measure the operations of our dealership stores by calculating an absorption rate, which equals to the gross profit of after-sales services divided by the sum of selling and distribution expenses and administrative expenses. The absorption rate represents the recovery rate of a dealership store's operating costs solely from its after-sales services. An absorption rate of 100%, or close to 100%, indicates that the dealership's operating costs can essentially be supported by after-sales services alone. According to the Frost & Sullivan Report, the absorption rate is commonly used in the automobile dealership industry to assess the operational performance of a dealership store. The absorption rate of our major peer companies in the automobile dealership industry ranged from approximately 70.3% to 107.3% for 2019, according to the Frost & Sullivan Report. For the years ended December 31, 2018, 2019 and 2020, our gross profit margin of after-sales services was 48.2%, 46.8% and 45.2%, respectively, which remained relatively stable, and our absorption rate was 95.7%, 100.1% and 87.5% for the same years, respectively. Our absorption rate decreased from 100.1% for the year ended December 31, 2019 to 87.5% for the year ended December 31, 2020, primarily attributable to the listing expenses that we incurred in 2020 and a decrease in gross profit derived from our after-sales services due to the reduced business volume as a result of the COVID-19 pandemic.

The table below sets forth the breakdown of revenue generated from after-sales services by brand for the years indicated:

| | Year Ended December 31, | | | | | |
|---------------------------------|-------------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Ultra-luxury brands | | | | | | |
| Porsche | 488,253 | 46.0 | 526,613 | 47.5 | 532,649 | 49.7 |
| Bentley | 3,178 | 0.3 | 4,717 | 0.4 | 8,142 | 0.8 |
| Luxury brands | | | | | | |
| Mercedes-Benz | 218,509 | 20.6 | 219,736 | 19.8 | 246,762 | 23.0 |
| Audi | 243,094 | 22.9 | 266,468 | 24.0 | 204,148 | 19.1 |
| Volvo | 7 | – | 5,448 | 0.5 | 22,414 | 2.1 |
| Jaguar-Land Rover | – | – | 1 | – | 28,824 | 2.7 |
| Medium-level brand | | | | | | |
| Imported Volkswagen | 55,769 | 5.2 | 46,806 | 4.2 | 23,485 | 2.2 |
| Entry-level brand | | | | | | |
| JAC Volkswagen-Sihao | – | – | 990 | 0.1 | 34 | – |
| Others ⁽¹⁾ | 53,618 | 5.0 | 38,660 | 3.5 | 4,217 | 0.4 |
| Total | <u>1,062,428</u> | <u>100.0</u> | <u>1,109,439</u> | <u>100.0</u> | <u>1,070,675</u> | <u>100.0</u> |

Note:

- (1) Others primarily represented revenue generated by certain of our PRC subsidiaries, other than the operating entities of our dealership stores, from insurance agency services and sale of accessories and other automobile-related products.

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Repair and Maintenance

Each of our 4S dealership stores provides a wide range of repair and maintenance services to our customers, which primarily consist of in-warranty repair services, extended warranty services, out-of-warranty repair services, insurance-covered repair services and maintenance services. The primary customers for our repair and maintenance services are customers who have previously purchased automobiles from our 4S dealership stores. Our repair and maintenance services are conducted by our automotive engineers and technicians who are trained in maintaining and repairing the brands of automobiles we sell through our 4S dealership stores. We believe that our focus on providing quality repair and maintenance services to achieve high customer satisfaction not only retains existing customers for repeat purchases but also attracts new customers through referrals. As part of our repair and maintenance services, our dealership stores may also assist automobile manufacturers in coordinating recalls of automobiles. For the years ended December 31, 2018, 2019 and 2020, our revenue from repair and maintenance services was RMB799.5 million, RMB876.2 million and RMB802.7 million, respectively, accounting for 9.5%, 10.7% and 9.4%, respectively, of our total revenue for the same years.

The table below sets forth the breakdown of revenue generated from in-warranty and out-of-warranty repair services for the years indicated:

| | Year Ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| In-warranty repair services | 68,002 | 82,438 | 115,556 |
| Out-of-warranty repair services | 731,524 | 793,757 | 687,120 |
| Total | 799,526 | 876,195 | 802,676 |

Our revenue generated from in-warranty and out-of-warranty repair services increased from 2018 to 2019 primarily because the sale of automobiles has enlarged our customer base, which in turn has driven the growth of our repair services. Our revenue generated from out-of-warranty repair services decreased from 2019 to 2020 mainly due to the reduced consumer mobility as a result of the COVID-19 outbreak.

The table below sets forth the breakdown of gross profit and gross profit margin from in-warranty and out-of-warranty repair services for the years indicated:

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------------|----------------|---------------------|----------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> |
| In-warranty repair services | 18,628 | 27.4 | 25,586 | 31.0 | 37,320 | 32.3 |
| Out-of-warranty repair services | 332,335 | 45.4 | 366,920 | 46.2 | 330,710 | 48.1 |
| Total | 350,963 | 43.9 | 392,506 | 44.8 | 368,030 | 45.9 |

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In-warranty Repair Services

We provide repair services under the warranties provided by automobile manufacturers for new automobiles pursuant to the dealership agreements entered into between the automobile manufacturers and us. The terms of these warranties vary among different automobile manufacturers. For example, the warranty periods (i) for new automobiles of Mercedes-Benz and Bentley that we are authorized to sell are three years without mileage limitation; (ii) for new automobiles of Porsche and Jaguar-Land Rover that we are authorized to sell are three years or when automobile mileage reaches 100,000 kilometers (whichever is the earlier); (iii) for new automobiles of Audi, which are sold after September 2, 2013, are three years or 100,000 kilometers (whichever the automobile reaches first); and (iv) for new automobiles of Volvo, which are sold after September 1, 2013, are three years. The commencement date of the warranty period varies among different brands, which typically begins on the date when we issue the invoice to the customer or when the automobile is delivered to the customer or registered with the local government authorities.

Our automotive engineers and technicians are required to familiarize themselves with the scope of the relevant automobile manufacturer's warranty coverage. When an automobile is brought to our 4S dealership stores for repair, our qualified personnel examines the automobile to assess and determine whether its problems fall within its warranty coverage. We are paid by the automobile manufacturers for in-warranty repair services. The manufacturers typically settle the payment with respect to our in-warranty repair services within approximately two months after we issue the invoice.

In addition to the standard warranty terms, we work with automobile manufacturers and third-party companies to offer extended-warranty products to our customers. Under such policies, the warranty periods can be extended for one to three years. For most of the brands we operate, we usually receive a commission from the automobile manufacturers for the sale of such products at our dealership stores.

According to the 3R Provisions, we, as a seller of family automobile products, assume the liabilities for the repair, replacement and return of household automotive products within the valid period of the "three-guarantee services". In accordance with the 3R Provisions, we are entitled to seek compensation from the manufacturers for the repair services performed if the liabilities are attributable to the manufacturers. The "three-guarantee services" shall cover two years or until an automobile has accumulated mileage of 50,000 kilometers, whichever is earlier. For details, see "Regulatory Overview — Regulations Relating to Guarantees for Family Car Products" in this prospectus.

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Out-of-warranty Repair Services

Our customers may bring their automobiles to our 4S dealership stores for repair services after the expiry of the “three-guarantee services” period or the in-warranty period. We charge customers of our repair services that we performed based on the prices of spare parts used and the hourly rates of our technicians (which generally range between RMB550.0 and RMB936.0 depending on the brand of automobiles). For this type of service, we generally require customers to fully settle the service fees before they pick up their automobiles.

Insurance-covered Repair Services

We have cooperated with third-party insurance companies and provided repair services to the brands of automobiles that we sell under the coverage of the insurance policies of the insurance company. In the event of car accidents or collisions, the damaged automobiles are delivered to our 4S dealership stores for repair. In some cases, our dealership stores arrange for roadside services and help customers deliver their damaged automobiles to our stores for repair. Our staff responsible for insurance claims check the relevant documents first to ensure that the customer’s automobile is insured. The relevant insurance company then designates personnel to inspect the automobile and confirm the damage. Once the damage is confirmed by the insurance company, we perform the repair services. The insurance company is responsible for issuing a damage determination form (定損單) for the claim and settling the payment of the repair service fees based on the clauses of the particular insurance policy. Insurance companies usually settle the payments in approximately seven days after we issue the invoices. If the repair work is not covered by insurance, the repair charges will be settled by the car owners.

Maintenance Services

Maintenance services are an integral part of our dealership stores’ service offerings. Our maintenance services are generally charged based on the prices of the spare parts and accessories used, if any, and the hourly rates of our technicians, both of which are determined by the manufacturers’ pricing guidelines. The maintenance services include oil changes, replacement of spark plugs and air filters and tire rotations, as well as routine inspections. The particular personnel assigned to each job, and his or her expertise and experience, vary according to the nature and complexity of the particular job. We send periodic reminders of upcoming scheduled maintenance to our customers. We generally require customers to fully settle the service fees for our maintenance services before they pick up their automobiles.

Sales of Accessories and Other Automobile-related Products

Our automobile dealership stores offer spare parts as part of our repair and maintenance services. We also sell accessories such as GPS navigation devices, vehicle audio systems, car mats, seat covers as well as automobile-related products, mostly original brand merchandise such as key chains and clothing. We procure substantially all of our spare parts, accessories from the automobile manufacturers or their authorized suppliers, and procure other automobile-related products from both the automobile manufacturers and third-party suppliers.

Insurance Agency Services

During the Track Record Period and up to the Latest Practicable Date, we also provide insurance agency services for insurance companies in the PRC for promoting and handling automobile insurance, including the compulsory traffic accident liability automobile insurance and commercial automobile insurance.

We entered into insurance agency agreements with leading insurance companies in the PRC to promote and sell their insurance products primarily through our 4S dealership network and receive commissions from the relevant insurance companies. We typically assist our customers in selecting and purchasing insurance products for their automobiles and collect premiums for the insurance companies. Our commissions are generally based on the insurance premiums of the relevant products that the insurance companies sold through us. During the Track Record Period, the commission rate of insurance products charged by our Group typically ranges from 4.0% to 55.0%, depending on the types of different insurance products and the policies of various insurance companies.

According to the Circular on Strengthening Administration on Insurance Terms and Premium Rates of Commercial Automobile Insurance (關於加強機動車輛商業保險條款費率管理的通知), which was promulgated by China Insurance Regulatory Commission and took effect on February 23, 2012, the commercial automobile insurance clauses and premium rates formulated by the insurance companies shall be submitted to the regulatory authority for approval. The commercial automobile insurance premium rates include, among others, the expected compensation expenses, business tax and additional charges, commission and handling charges, business management expenses, profits and additional risk expenses. On June 29, 2018, the China Banking and Insurance Regulatory Commission (the “CBIRC”) issued the Notice in Relation to the Regulations on Commercial Vehicle Insurance Premium (Yin Bao Jian Ban Fa [2018] No. 57) (中國銀保監會辦公廳關於商業車險費率監管有關要求的通知(銀保監辦發[2018]57號)) (the “Notice 57”), pursuant to which each insurance company shall report to the CBIRC the range and policies on charging commission and handling fees, which include all handling charges, service fees, promotional fees, remuneration, incentive payments, bonus payments and commission, and shall not have any unfair competition amongst different insurance companies. In June 2018, several leading insurance companies in the PRC suggested to impose a limit on the commission rate on automobile insurance, which states the commission rate of insurance for pre-owned automobiles shall not exceed 20.0% and commission rate of insurance for new automobiles shall not exceed 25.0%. After the issuance of the abovementioned notice in June 2018, the average market commission rate of commercial vehicle insurance products decreased in China. In September 2020, the CBIRC issued the Notice on Issuing the Regulations for Actuarial of Model Commercial Automobile Insurance (Yin Bao Jian Fa [2020] No. 42) (關於印發示范型商車險精算規定的通知(銀保監發[2020]42號)), which replaced the Notice 57, stipulating that insurance companies shall set up a reasonable price system, including premium rate, handling charges and additional charges based on the subject risks and operating costs.

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License Plate Registration

We also provide services to assist our customers in completing the registration of new automobiles and payment of the relevant taxes or charges. The registration service fees that we charge generally range between RMB1,000 and RMB5,000 for each automobile. For the years ended December 31, 2018, 2019 and 2020, revenue generated from automobile registration services amounted to RMB20.3 million, RMB18.2 million and RMB18.6 million, respectively.

Other Automobile-related Services

Automobile Financing

With respect to automobile financing services, we refer our customers to financing companies and commercial banks which in turn, provide financing products to our customers. Our customers will separately enter into automobile financing agreements with the financial institutions. We do not provide any counter-guarantee for our customers' loans. We normally receive a commission fee from these financial institutions, the amount of which is based on the amounts and duration of the loans referred by us. For the years ended December 31, 2018, 2019 and 2020, our automobile financing commission income was RMB67.2 million, RMB66.6 million and RMB75.1 million, respectively. For the years ended December 31, 2018, 2019 and 2020, the total number of automobiles for which we referred automobile financing services was 11,996, 10,933 and 11,761, respectively, with a total loan amount of RMB3,463.0 million, RMB3,503.3 million and RMB4,061.8 million, respectively. The average commission rate of our automobile financing services ranged between approximately 1.9% and 2.0% during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we also referred our customers to eCapital for automobile financing services. For details, see "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — (4) B. Cooperation with eCapital" in this prospectus.

Pre-owned Automobile Brokerage Services

We offer pre-owned automobile brokerage services to our customers in collaboration with an Independent Third Party company, which is primarily engaged in pre-owned automobile appraisal and dealing businesses. For customers who wish to sell or trade-in their pre-owned automobiles, we refer them to the third-party company, which provides and maintains a pre-owned automobile management system. The third-party company designates personnel to conduct inspections and appraisals for pre-owned automobiles through its system at our dealership stores. The system will generate a quotation for each pre-owned automobile. If customers agree to sell or trade-in their pre-owned automobiles, we will assist them to sign contracts with the third-party company, which will subsequently settle the payment with customers. Then, the pre-owned automobiles are generally put on the system of the third-party company for sale or auction. We are entitled to share a certain percentage of service fees based on the transaction value of the particular pre-owned automobiles.

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We also provide pre-owned automobile consignment services in cooperation with an Independent Third Party company, which is responsible for conducting appraisals for pre-owned automobiles. We agree to place the pre-owned automobiles at our dealership stores for sale. The value of pre-owned automobiles shall be evaluated by the Independent Third Party company and agreed by both parties. Once the pre-automobiles are sold, we are entitled to receive a certain percentage of service fees based on the net profit derived from each transaction.

To the best knowledge of our Directors and according to the dealership agreements with automobile manufacturers, we generally are not required to notify or obtain approvals from automobile manufacturers or suppliers for conducting the consignment or referral services in respect of pre-owned automobiles at our dealership stores. There have not been any objections or concerns raised by our automobile manufacturers for these businesses when renewing the dealership agreements with us. The service fees are generally settled on a monthly basis. For the years ended December 31, 2018, 2019 and 2020, the total number of used cars sold under our pre-owned automobile brokerage services was 1,891, 4,009 and 3,504, respectively, with a total transaction value of RMB154.5 million, RMB380.2 million and RMB403.4 million, respectively. For the years ended December 31, 2018, 2019 and 2020, our commission income derived from pre-owned automobile services amounted to RMB7.3 million, RMB13.5 million and RMB15.6 million, respectively. During the Track Record Period, the average commission rate of our pre-owned automobile brokerage services ranged between approximately 3.6% and 4.7%.

Automobile Recalls

Our dealership stores may also assist in automobile recalls, which may be conducted from time to time by automobile manufacturers to remedy problems with one or more automobile models. While automobile manufacturers vary in their procedures for conducting recalls, we are typically notified by an automobile manufacturer prior to the commencement of a recall and provided with the details with regard to the recall, such as instructions in repairing or otherwise resolving the problem and responses to expected inquiries from customers. After being notified of a recall, we contact our customers who may be affected and ask them to bring their automobiles to our dealership stores to settle the problem in accordance with the automobile manufacturer's instructions. We service the affected automobiles regardless of whether they are purchased from our dealership stores. Moreover, we will repair the affected automobiles in our inventory that are subject to the recall prior to the sale of those automobiles. We were reimbursed by the relevant automobile manufacturers for our costs relating to automobile recalls and these costs were generally reimbursed by the manufacturers within three months after we issue the invoices. As advised by our PRC Legal Advisor, we are not liable under PRC laws and regulations for the cost of elimination of defects and necessary expenses for transporting defective automobile products. See "Risk Factors — Risks Relating to our Business — Our business and results of operations may be affected by product defects, automobile recalls and warranty claims" and "Regulatory Overview — Regulations Relating to Motor Vehicle Recalls" in this prospectus for more information.

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The following table sets forth the major recalls that affected the automobiles we sold during the Track Record Period:

| <u>Brands</u> | <u>Model</u> | <u>Affected Components</u> | <u>Date of Recall</u> |
|---------------|--|---|-----------------------|
| Porsche | 2018 Cayenne (9YA) | Rear center seat belt buckle | August 29, 2018 |
| Porsche | 2019 Cayenne (9YA) | Rear right seat belt buckle | October 22, 2018 |
| Porsche | 2018 Panamera E-Hybrid (971) | Brake system component | March 22, 2019 |
| Porsche | 2017-2019 Panamera (971) | Electric power steering control unit | February 1, 2019 |
| Porsche | 2018 911 (991) and 718 (982) series models | Side airbag sensor | March 26, 2019 |
| Porsche | 2009-2010 Cayenne (9PA) and 2010-2016 Panamera (970) | Transmission shift cable bushing | August 26, 2019 |
| Porsche | 2011-2016 Panamera (970) | Air conditioner blower control unit | October 7, 2019 |
| Porsche | Cayenne (9YA) | Reprogram instrument cluster and various other control units | February 15, 2020 |
| Porsche | Panamera S E-Hybrid (970) | Reprogram air conditioning and high-voltage battery control units | March 20, 2020 |
| Porsche | 2019 Cayenne Turbo | Fuel supply line in engine compartment | August 17, 2020 |
| Porsche | 2017-2018 Cayenne (92A) | Pulse sensor | July 8, 2020 |
| Porsche | Tayan (Y1A) | Update software of various control units | July 23, 2020 |
| Mercedes-Benz | C and E classes | Right front seat belt | August 31, 2018 |
| Mercedes-Benz | G class | Brake vacuum tube | June 28, 2018 |
| Mercedes-Benz | C, E, GLC SUV | Steering gear | January 25, 2019 |
| Mercedes-Benz | C and GLC SUV | Knee airbag | May 31, 2019 |
| Mercedes-Benz | A and GLC SUV | Driver side airbag | November 27, 2019 |

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| <u>Brands</u> | <u>Model</u> | <u>Affected Components</u> | <u>Date of Recall</u> |
|------------------------|---|---|-----------------------|
| Mercedes-Benz | C, E, GLC SUV, GLS, G and AMG GT classes | Front seatbelt | March 30, 2020 |
| Mercedes-Benz | C class four-wheel drive, E class four-wheel drive, GLC SUV | Steering machine | March 31, 2020 |
| Mercedes-Benz | S, G, AMG GT | Turbo oil feed pipe | May 15, 2020 |
| Mercedes-Benz | S class | Oil plug | August 14, 2020 |
| Audi | Domestically manufactured Q3 | Front passenger front airbag | January 31, 2018 |
| Audi | A4, A5, A5 Cabrio, Q5 and A6 | Auxiliary coolant pump | June 6, 2018 |
| Audi | Imported A3 | Front passenger airbag | June 15, 2018 |
| Audi | A4 Allroad and A5 | Right front passenger airbag bolts | February 1, 2019 |
| Audi | A6 Hybrid | Auxiliary heater plug | February 16, 2019 |
| Audi | A5, A5 Cabrio, S5, A6, A6 Allroad, A7, A8L, Q7 and A6L | Low-pressure fuel rail for V6 models | April 4, 2019 |
| Audi | Imported Q7 | Steering shaft | March 27, 2020 |
| Audi | TT | Fuel tank insulation board | April 10, 2020 |
| Audi | Imported A1 and A3 | Transmission electromechanical unit | April 24, 2020 |
| Audi | A4 Aant, A4L, A5, A6L, Q5L | Power generator | June 5, 2020 |
| Audi | Imported Q8 and A8L | Transmission oil pipe | July 1, 2020 |
| Imported Volkswagen | Touareg | Air inlet | April 30, 2018 |
| Imported Volkswagen | Beetle | Dash board | March 12, 2019 |
| Imported Volkswagen | Golf, Beetle, Caravelle and Multivan | Vehicles scrapped | December 19, 2019 |
| Imported Volkswagen | 2019-2020 Touareg | Steering gear bolt | March 27, 2020 |

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| Brands | Model | Affected Components | Date of Recall |
|------------------------|---|--|-------------------|
| Imported Volkswagen | Beetle, Scirocco and Golf | Transmission electromechanical unit | September 1, 2020 |
| Imported Volkswagen | 2020 Touareg | Oil pipe of the transmission cooler | July 1, 2020 |
| Bentley | Mulsanne | Rear seat belt anchor plate | March 7, 2019 |
| Bentley | Bentayga | Curtain airbag | April 20, 2020 |
| Bentley | Bentayga | Engine control module and fuel hose | August 17, 2020 |
| Volvo | 2018-2019 XC60 and S90 | Seat rail flange nut | March 20, 2019 |
| Volvo | 2016 XC90 | Bleed hose | June 19, 2019 |
| Volvo | 2019-2020 V90, S90L, S90, XC90, V90CC, XC40, V60CC, XC60, S60 and V60 | Airbag system diagnostic module | March 27, 2020 |
| Volvo | XC60 | Front wiper nut | September 4, 2020 |
| Jaguar-Land Rover | 2016-2017 XE, XF and F-PACE, 2017 XFL | Airbag module | March 31, 2020 |
| Jaguar-Land Rover | Land Rover Discovery | Replace the second-row seat frame | March 31, 2020 |
| Jaguar-Land Rover | XJ | Upgrade the engine software power-train control module | October 10, 2020 |

DEALERSHIP ARRANGEMENTS

The operations of our stores are governed by the dealership agreements that we have entered into with automobile manufacturers. As of the Latest Practicable Date, we have entered into dealership agreements with the manufacturers of Audi, Porsche, Mercedes-Benz, Bentley, Volvo and Jaguar-Land Rover.

Salient Terms of Our Automobile Dealership Agreement

The following terms are typical and mutually agreed in most of our existing dealership agreements, which set out our general rights and obligations.

- In principle, we only retail automobiles of the authorized brand during the dealership authorization period, unless the manufacturer has explicitly agreed otherwise;
- We primarily adhere to the design and operational standards or guidelines required or recommended by each automobile manufacturer for dealership stores;
- We can use the trade names, trademarks and other forms of branding in a manner authorized by the automobile manufacturers;
- We are authorized to carry out marketing activities in relation to the sale of automobiles, spare parts and accessories in agreed areas;
- The services that we are authorized to provide at our dealership stores primarily include the sale of automobiles, the sale of spare parts and accessories, and after-sales services;
- The manufacturers usually engage logistic service providers to deliver the automobiles to be sold to the designated locations agreed by both parties, and bear transportation costs and insurance fees during the transportation process;
- The manufacturers generally have rights to conduct site-visits to our dealership stores to inspect the performance of our dealership stores and their compliance with the agreements;
- Subject to applicable laws and regulations, the manufacturers generally have rights to require us to provide reports relating to financial, sales, market research and customer data to them; and
- We are generally required to follow annual business plans, including but not limited to, the types and volume of automobiles, spare parts and accessories to procure from the manufacturer, the performance target for the volume and types of automobiles to be sold and our marketing plans, which are pre-negotiated and mutually agreed with the manufacturer.

Our dealership agreements are non-exclusive and generally granted for an initial period of three to five years. The automobile manufacturers can terminate these agreements for a variety of reasons, including our failure to abide by the agreements, failure to rectify performance deficiencies, changes in ownership or management structure that affect our ability to meet our contractual obligations without their prior consent and insolvency of our dealership

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stores. The notice period required to terminate a dealership agreement ranges from a termination notice that takes immediate effect to six months. During the Track Record Period and up to the Latest Practicable Date, none of our existing automobile manufacturers refused to renew any of their dealership agreements with us, nor were there material adverse changes in the terms of our dealership agreements. During the Track Record Period and up to the Latest Practicable Date, we did not receive any claim of breach of our dealership agreements from any automobile manufacturers.

When a dealership agreement is approaching the end of its term, we usually discuss the renewal of the agreement with the automobile manufacturer before its expiration date. We were able to renew all of our existing dealership agreements upon expiration during the Track Record Period. We expect to be able to renew all of our existing agreements before they expire.

INVENTORY MANAGEMENT

We actively monitor our inventories of new automobiles, spare parts, accessories and other automobile-related products at each of our dealership stores to ensure cost efficiency, quality control and timely distribution. Our average inventory turnover days were approximately 37.6 days, 36.9 days and 26.7 days for the years ended December 31, 2018, 2019 and 2020, respectively.

We have dedicated staff at our 4S dealership stores to track and manage the inventory. It is our policy to perform stock check and produce inventory reports on a regular basis to closely monitor the inventory level and turnover of each dealership store. We strive to maintain optimal inventory levels to meet customers' demand while managing our working capital effectively to finance our inventories.

CUSTOMERS AND CUSTOMER SERVICES

Our Customers

As we are an automobile dealership group focused on luxury and ultra-luxury brands, our customers are mainly high-net-worth individuals. Each customer is required to pay the purchase price in cash or with an approved automobile financing loan before we can deliver the automobile to the customer. Our customers pay us for maintenance and out-of-warranty repair services, which we charge based on the spare parts and manpower required. We do not provide any credit terms for repair or maintenance services that are not covered by insurance or warranty. If a customer's repair costs are covered by warranty or a valid insurance policy, we will generally seek reimbursement directly from the relevant automobile manufacturer or insurance company. As a result, insurance companies and automobile manufacturers are also treated as our customers. During the Track Record Period, we sold automobiles to eCapital, which provided financial lease services to the ultimate automobile purchasers. We also sold certain automobiles to eCapital and leased these automobiles back for test-drive purposes. eCapital is ultimately controlled by Mr. Chou, our executive Director and Controlling Shareholder. For details about the arrangements with eCapital, see "Connected Transactions —

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Continuing Connected Transactions — Non-exempt Continuing Connected Transactions” in this prospectus. For the years ended December 31, 2018, 2019 and 2020, revenue generated from eCapital was RMB54.3 million, RMB52.5 million and RMB46.3 million, respectively, accounting for 0.6%, 0.6% and 0.5% of our total revenue for the same years, respectively. Other than eCapital, our top five customers during the Track Record Period are Independent Third Parties. Except for eCapital, none of our Directors, their close associates or our current Shareholder (who, to the knowledge of our Directors, owns more than 5% of our share capital) has any interest in our top five customers that are required to be disclosed under the Listing Rules. For the years ended December 31, 2018, 2019 and 2020, revenue generated from our top five customers accounted for 3.5%, 4.3% and 4.0% of our total revenue, respectively. Given the nature of our business, our top five customers in aggregate accounted for less than 5.0% of our total revenue during the Track Record Period.

Our Customer Relationship Management

We have established a dedicated customer relationship management department, which is primarily responsible for customer engagement and customer maintenance and retention. We typically make courtesy calls or send text messages to customers to remind them to conduct regular maintenance for their automobiles and renew automobile insurance upon expiration. On rainy and snowy days, we send text messages to remind customer to drive safely. In addition, we will remind our customers timely if the automobile models they purchase are recalled by the relevant automobile manufacturers. We also provide 24-hour roadside rescue services for our customers if they are involved in a traffic accident.

To improve our service quality and better serve our customers, we generally conduct satisfaction surveys with customers through in-person interviews, courtesy calls or WeChat after their first automobile purchase from our dealership stores, and after each time of their automobiles’ repair and maintenance. We will share customers’ feedback about our services to the relevant departments of our dealership stores and improve our services based on customers’ advice and suggestions. In addition, based on our database, we send invitations to our customers for our regular marketing events, such as new model launch events, self-drive tours and other activities tailor-made to our customers’ preferences and needs.

In the course of our business operations, we collect certain personal and consumer behavioral information, such as the names and phone numbers of our customers, the frequency of customers’ visits to our dealership stores and their purchase record of our automobiles and after-sales services. To better protect the security and privacy of any customer data we have collected and stored, we have adopted a set of security safeguard measures. For example, we have designated personnel to inspect and report any suspicious data deriving and transmitting activities, as well as enhancing our data protection system pursuant to the applicable laws and regulations in the PRC in respect of data security. In particular, we have adopted a rigorous encrypted algorithm to store data and strictly execute a data accessing and transmitting policy to ensure the confidentiality of our electronic data. We have also developed strict internal control and data accessing mechanisms and detailed approval and operation procedures regarding data collection and processing. In addition, we have inserted a data security

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provision in our sales and service agreement with customers, which stipulates that we shall ensure appropriate information security in connection with any personal or behavioral data that we have collected, as acknowledged and accepted by our customers, during the course of our business in accordance with applicable data protection laws and regulations. Under such mechanisms and procedures, any operation violating information security regulations will result in internal disciplinary action. Our staff are expected to undertake periodical training on data protection. We also have a comprehensive data backup system to encrypt and store data on servers in different locations in order to minimize the risk of data loss. Moreover, we have provided training to our staff who are responsible for data security to keep them abreast of our policies and regulatory requirements for data privacy.

Overlapping Customers and Suppliers

During the Track Record Period, our major automobile suppliers were also our customers, primarily because we provided in-warranty repair services to automobile suppliers which compensate us for the in-warranty repair services that we rendered and the costs of related spare parts that we used. In this regard, our automobile suppliers would also be treated as our customers.

Revenue generated from in-warranty repair services, which were paid by the automobile manufacturers amounted to RMB68.0 million, RMB82.4 million and RMB115.6 million for the years ended December 31, 2018, 2019 and 2020, respectively, accounting for 0.8%, 1.0% and 1.4% of our total revenue for the same years, respectively. Our gross profit generated from these major automobile suppliers in relation to the in-warranty services was RMB18.6 million, RMB25.6 million and RMB37.3 million, respectively, representing 2.3%, 3.3% and 4.3% of our total gross profit for the years ended December 31, 2018, 2019 and 2020, respectively.

SALES AND MARKETING

We utilize a wide variety of methods to promote our brand image, our 4S dealership stores and related products and services we offer. Our sales platform includes multiple sales channels. We use traditional sales channels such as our stores to reach customers. We also participate in automobile marketing campaigns organized by manufacturers, such as automobile exhibitions, new model launches, automobile owner club activities and other promotional events. We typically provide more promotional and marketing activities before the major holidays and festivals, such as the holidays for Chinese New Year, the Labor Day holidays in May and the PRC National Day in October.

We have sales and marketing department at each of our 4S dealership stores, which generally conduct marketing campaigns through outdoor advertisements, radio commercials, distributions of marketing materials at our 4S dealership stores and Internet advertisements. Our 4S dealership stores also organize a number of off-line activities such as test-drives and models appreciation activities to attract prospective customers.

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In addition, we actively utilize social media tools such as opening an official account on WeChat to improve our interaction with our customers and expand our advertising channels. Our use of social media and other online advertising platforms incurs relatively lower advertising and marketing expenses than traditional marketing channels, which helps to improve our profitability. We also endeavor to earn referrals from existing customers of our services by enhancing our customer relationships management and improving the quality of our services. We have established a “butler service model” (管家式服務), where we provide each customer with detailed services in the process of purchasing a new automobile, including the introduction of the brand and performance of the automobiles, selection of automobile models, arranging for test-drives and procuring the relevant financing and insurance products, as well as license plate registration services. In addition, we are dedicated to providing our customers with comprehensive after-sales services during the life cycle of their automobiles, including repairs, maintenance and warranty extension services. This service model has allowed us to increase the frequency of interactions with our customers, maintain uniform service quality across our dealership store network, and create customer loyalty.

Our sales initiatives generally include gifts and other complementary service packages such as maintenance services. For the years ended December 31, 2018, 2019 and 2020, we recorded selling and distribution expenses of RMB344.3 million, RMB365.6 million and RMB360.5 million, respectively.

SUPPLIERS AND PROCUREMENT

We purchase all of our new automobiles and substantially all of our spare parts and accessories from automobile manufacturers and their authorized suppliers, and we purchase our other automobile-related products from both automobile manufacturers and third parties. Our top five suppliers are automobile manufacturers that supply new automobiles and spare parts to us. For the years ended December 31, 2018, 2019 and 2020, purchases from our top five suppliers were RMB7.7 billion, RMB7.0 billion and RMB6.9 billion, representing 96.4%, 91.6% and 86.2%, of our total purchases, respectively, and purchases from our largest supplier were RMB4.0 billion, RMB4.1 billion and RMB3.9 billion, respectively, representing 49.6%, 53.4% and 48.5%, of our total purchases for the years ended December 31, 2018, 2019 and 2020, respectively. All of our top five suppliers are Independent Third Parties. None of our Directors, their close associates or our current Shareholder (who, to the knowledge of our Directors, owns more than 5% of our share capital) has any interest in any of our top five suppliers that is required to be disclosed under the Listing Rules.

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The table below sets forth a breakdown of our purchases attributable to the five largest suppliers during the Track Record Period:

For the Year Ended December 31, 2018

| Rank | Supplier | Products/Services Provided by the Supplier | Background | Location | Year in Which Our Business Relationship Commenced | Typical Credit Term and Payment Method | Amount of | Percentage of |
|------|------------|--|---------------------|----------|---|---|-------------------------|---------------------|
| | | | | | | | Purchases | Our Total Purchases |
| | | | | | | | <i>RMB'000</i> | <i>%</i> |
| 1 | Supplier A | Automobiles and spare parts | Automobile supplier | The PRC | 2003 | Automobiles are prepaid by bank transfer and spare parts are paid by bank transfer within 21 days after receiving invoice from the supplier | 3,958,556 | 49.6 |
| 2 | Supplier B | Automobiles | Automobile supplier | The PRC | 2000 | Automobiles are prepaid by bank transfer | 1,586,841 | 19.9 |
| 3 | Supplier C | Automobiles and spare parts | Automobile supplier | The PRC | 2009 | Automobiles are paid by bank transfer within 15 days after placing the order. Spare parts are paid by bank transfer within three months after placing the order | 1,063,632 | 13.3 |
| 4 | Supplier D | Automobiles | Automobile supplier | The PRC | 2009 | Automobiles are paid by bank transfer within 15 days after placing the order | 731,274 | 9.2 |
| 5 | Supplier E | Automobiles | Automobile supplier | The PRC | 2011 | Automobiles are prepaid by bank transfer | 358,349 | 4.5 |
| | | | | | | Total | <u>7,698,652</u> | <u>96.4</u> |

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For the Year Ended December 31, 2019

| Rank | Supplier | Products/Services Provided by the Supplier | Background | Location | Year in Which Our Business Relationship Commenced | Typical Credit Term and Payment Method | Amount of | Percentage of |
|--------------|------------|--|------------------------|----------|--|--|------------------|------------------------|
| | | | | | | | Purchases | Our Total Purchases |
| | | | | | | | <i>RMB'000</i> | <i>%</i> |
| 1 | Supplier A | Automobiles and spare parts | Automobile supplier | The PRC | 2003 | Automobiles are prepaid by bank transfer and spare parts are paid by bank transfer within 21 days after receiving invoice from the supplier | 4,074,576 | 53.4 |
| 2 | Supplier B | Automobiles | Automobile supplier | The PRC | 2000 | Automobiles are prepaid by bank transfer | 1,150,917 | 15.1 |
| 3 | Supplier C | Automobiles and spare parts | Automobile supplier | The PRC | 2009 | Automobiles are paid by bank transfer within 15 days after placing the order. Spare parts are paid by bank transfer within three months after placing the order | 903,555 | 11.8 |
| 4 | Supplier D | Automobiles | Automobile supplier | The PRC | 2009 | Automobiles are paid by bank transfer within 15 days after placing the order | 691,505 | 9.1 |
| 5 | Supplier E | Automobiles | Automobile supplier | The PRC | 2011 | Automobiles are prepaid by bank transfer | 166,775 | 2.2 |
| Total | | | | | | | 6,987,328 | 91.6 |

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For the Year Ended December 31, 2020

| Rank | Supplier | Products/Services Provided by the Supplier | Background | Location | Year in Which Our Business Relationship Commenced | Typical Credit Term and Payment Method | Amount of | Percentage of |
|------|------------|--|------------------------|----------|--|--|-------------------------|------------------------|
| | | | | | | | Purchases | Our Total Purchases |
| | | | | | | | <i>RMB'000</i> | <i>%</i> |
| 1 | Supplier A | Automobiles and spare parts | Automobile supplier | The PRC | 2003 | Automobiles are prepaid by bank transfer and spare parts are paid by bank transfer within 21 days after receiving invoice from the supplier | 3,879,032 | 48.5 |
| 2 | Supplier B | Automobiles | Automobile supplier | The PRC | 2000 | Automobiles are prepaid by bank transfer | 1,109,375 | 13.9 |
| 3 | Supplier C | Automobiles and spare parts | Automobile supplier | The PRC | 2009 | Automobiles are paid by bank transfer within 15 days after placing the order. Spare parts are paid by bank transfer within three months after placing the order | 915,698 | 11.4 |
| 4 | Supplier D | Automobiles | Automobile supplier | The PRC | 2009 | Automobiles are paid by bank transfer within 15 days after placing the order | 685,460 | 8.6 |
| 5 | Supplier F | Automobiles | Automobile supplier | The PRC | 2018 | Automobiles are prepaid by bank transfer | 307,223 | 3.8 |
| | | | | | | Total | <u>6,896,788</u> | <u>86.2</u> |

Procurement of Automobiles

We procure new automobiles from automobile manufacturers. New automobiles are delivered to us based on the orders placed by each of our dealership stores. Consistent with what we believe to be the industry practice, other than the manufacturer of Mercedes-Benz which grants us a credit period of 15 days after delivery, our automobile manufacturers generally require us to make full payment of the purchase price before delivery of new automobiles to us. The automobile manufacturer of Porsche also requires us to pay a deposit, which is usually 4.5% of the prevailing market price suggested by the manufacturer, upon the payment of the order. The deposit is generally refunded within eight months after payment based on the manufacturer's assessments on our sales performance.

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Procurement of Spare Parts, Accessories and Other Automobile-related Products

We procure spare parts, automobile accessories and other automobile-related products from automobile manufacturers and suppliers who are Independent Third Parties.

We are entitled to return automobiles and spare parts with manufacturing defects to the suppliers. If the defects were caused during transport, we usually claim damages from the logistics and transport companies. During the Track Record Period, we had no significant purchase returns for automobiles or spare parts.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material shortage, delay or quality issue in procuring automobiles, spare parts, accessories and other automobile-related products from automobile manufacturers and suppliers.

AWARDS AND ACHIEVEMENTS

Our 4S dealership stores received numerous awards and recognition from automobile manufacturers. The table below sets forth the major awards our 4S dealership stores received from the automobile manufacturers during the Track Record Period:

| Awards | Awarded Store | Year |
|---|---------------------------------|------|
| Outstanding Marketing Project Award (優秀市場營銷項目獎) | Beijing Yizhuang Audi | 2018 |
| The Second Place of Sales Excellence Award of Porsche Retail Competition for the Second Half of 2018 of the Northern District of China (2018下半年保時捷中國銷售卓越獎北區第二名) | Beijing Yizhuang Porsche Center | 2018 |
| The Best Practice Award for Customer Delight Experience (至臻客戶體驗獎之最佳案例獎) | Chengdu Airport Porsche Center | 2018 |
| Porsche Marketing Excellence Award in the Southern District of China (保時捷南區市場營銷卓越獎) | Chengdu Airport Porsche Center | 2018 |
| Porsche Financial Service China Excellence Award for the second half of 2018 (2018上半年保時捷金融服務卓越經銷商) | Chengdu Jinniu Porsche Center | 2018 |
| Outstanding Progress Award for After-sales Manager in the Marketing Group Competition of Mercedes-Benz Northern District of China (梅賽德斯奔馳中國北區營銷團隊爭先賽突出進步售後經理) | Beijing Haidian Mercedes-Benz | 2018 |

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| Awards | Awarded Store | Year |
|--|---------------------------------|------|
| Outstanding Key Customer Manager Award in the Audi Star Competition Semi-Final (奧迪之星競賽半決賽優秀大客戶經理獎) | Beijing Haidian Audi | 2018 |
| The First Place of Sales Excellence Award of Porsche Retail Competition for the First Half of 2019 of the Northern District of China (2019上半年保時捷中國零售競賽北區第一名) | Beijing Yizhuang Porsche Center | 2019 |
| Third Place of the First Half of 2019 Porsche Macan II Marketing Competition of the Northern District of China (2019上半年保時捷中國北區Macan II市場競賽第三名) | Beijing Haidian Porsche Center | 2019 |
| The First Place in the Porsche Online Marketing Competition of the Southern District of China (保時捷中國南區線上市場營銷競賽第一名) | Chengdu Airport Porsche Center | 2019 |
| The Sixth Place of Porsche Retail Competition for the First Half of 2019 of the Southern District of China (2019上半年保時捷中國零售競賽南區第六名) | Chengdu Airport Porsche Center | 2019 |
| 2019-2020 Financial Management Excellence Dealer (2019-2020財務管理標桿經銷商) | Chengdu Jinniu Porsche Center | 2019 |
| The Best Sales Performance Award of the Northern District of FAW-Volkswagen Audi (一汽大眾奧迪北部區最佳銷售業績獎) | Beijing Yizhuang Audi | 2019 |
| Top Five Warranty Business Performance Award Northern Region 2019 (北區最佳業務經銷商獎) | Beijing Haidian Mercedes-Benz | 2019 |
| The Outstanding Performance Award of Customer Experience (客戶體驗傑出表現獎) | Beijing Haidian Mercedes-Benz | 2019 |
| The Excellence Dealer Award for Volvo Automobile Customer Services in the Second Half of 2019 (2019下半年沃爾沃汽車客戶服務優秀經銷商獎) | Beijing Haidian Volvo | 2019 |

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| Awards | Awarded Store | Year |
|---|--------------------------------|------|
| The First Place of Group One in the Third Quarter Porsche Best Practice Competition of the Northern District of China (保時捷中國第三季度北區市場競賽組別一第一名) | Beijing Haidian Porsche Center | 2020 |
| The Fourth Place of the Service Excellence Program for the Business Performance Evaluation Module of Porsche (保時捷卓越服務項目績效表現模塊全國第四) | Tianjin Airport Porsche Center | 2020 |
| 2020 Second Quarter Excellent Joint Marketing Award (2020第二季度優秀聯合營銷獎) | Hangzhou Jaguar-Land Rover | 2020 |
| Outstanding Sales Contribution Award of Jaguar-Land Rover Eastern District (捷豹路虎東區優秀銷量貢獻獎) | Hangzhou Jaguar-Land Rover | 2020 |
| Excellent Sales Achievement Award of Jaguar-Land Rover Eastern District (捷豹路虎東區優秀銷售達成獎) | Hangzhou Jaguar-Land Rover | 2020 |
| New Dealer Award of Jaguar-Land Rover Eastern District (捷豹路虎東區經銷商新秀獎) | Hangzhou Jaguar-Land Rover | 2020 |
| Best Financial Performance Award of Jaguar-Land Rover Eastern District (捷豹路虎東區金融最佳表現獎) | Hangzhou Jaguar-Land Rover | 2020 |

INFORMATION TECHNOLOGY

We have implemented an ERP system for all our dealership stores. Our ERP system is designed to monitor our procurement, sales and inventory levels and our financial management to enhance our operating efficiency. We are also required to use certain information technology systems designated by our automobile manufacturers, which allow them to collect and trace data in connection with the sales, after-sales services, inventory and procurement of each dealership store. We periodically upgrade other hardware and software components of our information technology systems to cater for the needs of our business. We expect our information technology systems to assume more management functions to improve our productivity and performance in the future.

During the Track Record Period and up to the Latest Practicable Date, we have entered into IT support services agreement with Beijing Xiaobo Technology Co., Ltd.* (北京小波科技有限公司), a company ultimately controlled by Mr. Chou, our Controlling Shareholder, which provided information technology support services, including but not limited to, overall information technology system maintenance and office automation system maintenance services to us. See “Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — (2) IT Support Services” in this prospectus for details.

Data Security and Privacy

We pay close attention to risk management relating to our information technology systems, as storage and protection of our customer data and other related information is critical to us. We have adopted a set of security safeguard measures to protect the data we have accumulated and stored, including, but not limited to, encryption technology for data transmission and storage, conducting data classification management and applying strict user data access and usage management policies.

We have adopted a rigorous encrypted algorithm to store data and strictly execute a data accessing and transmitting policy to ensure the confidentiality of our electronic data. We have also developed strict internal control and data accessing mechanisms and detailed approval and operation procedures regarding data collection and processing. Under such mechanisms and procedures, any operation violating information security regulations will result in internal disciplinary action. Our staff are expected to undertake periodical training on data protection. We also have a comprehensive data backup system to encrypt and store data on servers in different locations in order to minimize the risk of data loss.

Furthermore, we have designated personnel to be responsible for inspecting and reporting any suspicious data deriving and transmitting activities, as well as enhancing our data protection system pursuant to the changes of laws and regulations and technology development. Meanwhile, such personnel has been designated to take charge of reviewing, discussing and improving our technologies in managing information security and our internal control system to ensure adequate protection is given to our database.

COMPETITION

The automobile dealership industry in China is highly competitive and fragmented. We compete against other dealership groups, including those groups that sell the same brands of automobiles as we do, for dealership authorizations, prime store locations, capital to finance expansion and inventory, customers and skilled employees. We also compete with independent repair shops and spare parts retail centers in relation to after-sales services. Moreover, our dealership business is affected by competition among the automobile manufacturers and their brands in terms of quality, design and price. We believe the key factors for our success in the industry include network coverage and synergy effect, relationships with automobile manufacturers, brand recognition, customer services, operating management, cost control, sales expertise, attraction and retention of talent and pricing strategy. We focus our dealership business on luxury and ultra-luxury brands. According to the Frost & Sullivan Report, there were approximately 30,000 automobile dealers in China as of December 31, 2020 and revenue generated by the top five automobile dealership groups in China in aggregate accounted for approximately 12.2% of the total revenue of all automobile dealership groups in the PRC in 2020. As a leading luxury and ultra-luxury automobile dealership group in China with a strong track record of operating performance, we believe that we are well positioned to take advantage of opportunities in the growing luxury and ultra-luxury automobile industry in China.

Impact of the New Energy Vehicle Market and Our Business Prospects***Impact on Our Business***

The emerging electric vehicle brands in the luxury and ultra-luxury segment, such as Tesla, NIO and Lixiang, which mainly adopt a direct-sale model, may threaten the demand for petroleum vehicles of other luxury and ultra-luxury brands, including Porsche, Bentley, Audi, Mercedes-Benz, Volvo and Jaguar-Land Rover. According to the Frost & Sullivan Report, (i) the sales volume of new energy vehicles in the luxury and ultra-luxury segment grew at a faster pace than that of petroleum vehicles in the same segments from 2016 to 2020. According to the Frost & Sullivan Report, the sales volume of new energy vehicles in the luxury and ultra-luxury segment grew at a CAGR over 100.0% from 2016 to 2020, compared with a CAGR of 10.0% for petroleum vehicles in the luxury and ultra-luxury segments during the same period; and (ii) the market share in terms of the sales volume of new energy vehicles in the luxury and ultra-luxury passenger vehicle market increased from 0.5% in 2016 to 5.5% in 2020, and is expected to continue to grow and reach 15.5% in 2025, which may have an adverse impact on the demand for petroleum vehicles in the luxury and ultra-luxury segments. However, a growing number of traditional petroleum automobile manufacturers that operate luxury and ultra-luxury brands have started to develop and launch their own new energy vehicle models to capture the trend of automobile electrification in the next few years. For instance, Porsche has launched a number of electric vehicle models, such as Taycan and Taycan 4S, Bentley plans to launch its first new energy vehicle model in 2025 and go fully electric by 2030 and Audi aims that there will be 30 electric models on sale worldwide by 2025 and the sales volume of electric models will represent 40.0% of its total sale volume of new automobiles by 2025. In addition, the PRC government issued various restrictive measures on petroleum vehicles such as tightening automobile emission regulations and license plate restrictions that may limit the growth of the number of petroleum automobiles on the road. For details of the automobile emission regulations and license plate restrictions, see “Regulatory Overview – Regulations Relating to Vehicle Emission Standards in China”, “Regulatory Overview – Regulations Relating to Sales of New Automobiles – Regulations Relating to Adjusting and Controlling the Quantity of Vehicles”, “Business – Implications of Emission Regulations for the Automobile Industry” and “Business – Implications of Regulatory Restrictions on Automobile Ownership” in this prospectus.

In respect of our regular repair and maintenance services, as electric vehicles have electric motors instead of engines that are used in petroleum cars, our total service income from the repair and maintenance of engines would decrease. At the same time, however, electric vehicles have certain items that require repair and maintenance that traditional petroleum cars do not have, such as battery packs, electric traction motor, high-voltage electric thermal cooling system, onboard charger, power electronics controller and electricity charge port, and we expect to generate service income regularly from the repair and maintenance of these items. Moreover, for repair service that is necessitated by accidents that damaged the vehicles, the type of the vehicle would not make any material difference. Taking into account the above factors, we currently do not expect the development of the new energy vehicle market to have a material and adverse impact on our repair and maintenance service business. We intend to further develop our repair and maintenance capabilities with a particular focus on services catering to electric vehicles. We believe that we will be able to develop additional services and expand our revenue sources.

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Our Business Prospects

According to the Frost & Sullivan Report, the demand for luxury and ultra-luxury automobiles cannot be completely substituted with new energy vehicles, because (i) not all electric vehicles are classified into luxury and ultra-luxury brands and the market share of the luxury and ultra-luxury segment is 16.7% in new energy vehicle market in China as measured by the sales volume in 2020; and (ii) customers for luxury and ultra-luxury automobiles, especially for ultra-luxury automobiles, usually care more about the reputation and prestige of the brands and as a result, they are more likely to choose the traditional automobile brands over the emerging luxury electric vehicle brands such as Tesla, NIO and Lixiang when they purchase luxury and ultra-luxury electric vehicles. According to the Frost & Sullivan Report, although the penetration rate of new energy vehicles increased from 0.5% in 2014 to 5.7% in 2020 and is expected to reach 18.1% in 2025, the sales volume of passenger vehicles in the luxury and ultra-luxury segments still achieved rapid growth, which increased at a CAGR of 9.8% and 8.5% from 2014 to 2020, respectively, and is expected to continue to grow at a CAGR of 10.2% and 3.3% from 2020 to 2025, and reach approximately 5.7 million units and 118.4 thousand units in 2025, respectively. We are an automobile dealership service provider in China, which primarily focuses on luxury and ultra-luxury brands and we plan to continue to focus our operations on luxury and ultra-luxury segments for both petroleum vehicles and new energy vehicles.

To adapt to and capture the growing new energy vehicle market, we have introduced new energy vehicle models produced by our automobile manufacturers to our product portfolio since 2011. During the Track Record Period, we sold new energy vehicles for five brands, namely Porsche, Audi, imported Volkswagen, Volvo and JAC Volkswagen-Sihao. The sales volume of plug-in hybrid electric and pure electric models we sold was 152, 664 and 635, respectively, taking approximately 1.1%, 5.0% and 4.7% of the total sales volume of the automobiles we sold for the years ended December 31, 2018, 2019 and 2020. Accordingly, we consider such business insignificant to our dealership business as a whole. For the first quarter of 2021, our sales volume of new energy vehicles (including plug-in hybrid electric models and pure electric models) was 203, compared to the sales volume of 59 for the same period of 2020. The increase was mainly attributable to a new electric model, Taycan, launched by Porsche in 2021. The table below sets forth the sales volume, revenue contribution and average selling price of plug-in hybrid electric vehicles and electric vehicles by brand during the Track Record Period:

| | Year Ended December 31, | | | | | | | | | | | | | | | | | |
|--------------------------------|----------------------------------|--------------|-----------------------|-------------------|--------------|-----------------------|----------------------------------|--------------|-----------------------|-------------------|--------------|-----------------------|----------------------------------|--------------|-----------------------|-------------------|--------------|-----------------------|
| | 2018 | | | | | | 2019 | | | | | | 2020 | | | | | |
| | Plug-in Hybrid Electric Vehicles | | | Electric Vehicles | | | Plug-in Hybrid Electric Vehicles | | | Electric Vehicles | | | Plug-in Hybrid Electric Vehicles | | | Electric Vehicles | | |
| | Revenue | Sales Volume | Average Selling Price | Revenue | Sales Volume | Average Selling Price | Revenue | Sales Volume | Average Selling Price | Revenue | Sales Volume | Average Selling Price | Revenue | Sales Volume | Average Selling Price | Revenue | Sales Volume | Average Selling Price |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Porsche | 153,143 | 135 | 1,134 | - | - | - | 541,175 | 616 | 879 | - | - | - | 416,856 | 462 | 902 | 106,360 | 98 | 1,085 |
| Audi | 4,608 | 14 | 329 | - | - | - | 11,526 | 24 | 480 | 911 | 2 | 456 | 3,149 | 8 | 394 | 10,324 | 27 | 382 |
| Imported Volkswagen | - | - | - | 560 | 3 | 187 | - | - | - | 385 | 2 | 193 | 514 | 1 | 514 | - | - | - |
| Volvo | - | - | - | - | - | - | 6,089 | 12 | 507 | - | - | - | 11,579 | 27 | 429 | - | - | - |
| JAC Volkswagen-Sihao | - | - | - | - | - | - | - | - | - | 744 | 8 | 93 | - | - | - | 1,235 | 12 | 103 |
| Total | 157,751 | 149 | 1,059 | 560 | 3 | 187 | 558,790 | 652 | 857 | 2,040 | 12 | 170 | 432,098 | 498 | 868 | 117,919 | 137 | 861 |

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The table below sets forth a breakdown of the proportion of the new energy vehicle models and the proportion of the sales volume of the new energy vehicles by brand during the Track Record Period:

| Type | Brands | Models | Year Ended December 31, | | |
|---|------------------|-------------------------------------|-----------------------------------|------------|------------|
| | | | 2018 | 2019 | 2020 |
| Total number of automobile models..... | | | 66 | 81 | 78 |
| Number of the new energy vehicle models..... | | | 4 | 11 | 12 |
| Proportion of the new energy vehicle models | | | 6.1% | 13.6% | 15.4% |
| Pure electric models | Audi | 國產Q2 (Q2 domestic manufactured) | – | 1 | 9 |
| | | 進口E-tron (imported E-tron) | – | 1 | 18 |
| | Porsche Imported | Taycan (Taycan) | – | – | 98 |
| | | 進口高爾夫 (imported Golf) | 3 | 2 | – |
| | Volkswagen | Golf) | | | |
| | JAC | E20X | – | 8 | 12 |
| | Volkswagen-Sihao | | | | |
| | Subtotal | | 3 | 12 | 137 |
| Plug-in hybrid electric models | Audi | 國產A6 (A6 domestic manufactured) | 14 | 4 | 8 |
| | | 進口Q7 (imported Q7) | – | 20 | – |
| | Porsche | Cayenne SUV系列 (Cayenne SUV series) | 28 | 455 | 379 |
| | | Panamera 轎跑系列 (Panamera series) | 107 | 161 | 83 |
| | Imported | 途銳 (Touareg) | – | – | 1 |
| | Volkswagen | | | | |
| | | Volvo | 國產S60 (S60 domestic manufactured) | – | – |
| | | 國產S90 (S90 domestic manufactured) | – | 3 | 16 |
| | | 國產XC60 (XC60 domestic manufactured) | – | 3 | 4 |
| | | 進口XC90 (IMPORTED XC90) | – | 6 | 6 |
| | Subtotal | | 149 | 652 | 498 |

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| Type | Brands | Models | Year Ended December 31, | | | | |
|--------------------|--------|---------------------------------|-------------------------|------------------------------------|-------|-------|-------|
| | | | 2018 | 2019 | 2020 | | |
| Petroleum vehicles | Audi | 國產A3 (A3 domestic manufactured) | 416 | 295 | 205 | | |
| | | 國產A4 (A4 domestic manufactured) | 868 | 616 | 407 | | |
| | | 國產A6 (A6 domestic manufactured) | 1,126 | 851 | 946 | | |
| | | 國產Q2 (Q2 domestic manufactured) | 15 | 157 | 84 | | |
| | | 國產Q3 (Q3 domestic manufactured) | 321 | 230 | 166 | | |
| | | 國產Q5 (Q5 domestic manufactured) | 726 | 787 | 764 | | |
| | | 進口A1 (imported A1) | 7 | – | – | | |
| | | 進口A3 (imported A3) | 2 | – | – | | |
| | | 進口A4 (imported A4) | 70 | 33 | 18 | | |
| | | 進口A5 (imported A5) | 107 | 55 | 40 | | |
| | | 進口A6 (imported A6) | 113 | 5 | 90 | | |
| | | 進口A7 (imported A7) | 24 | 9 | 27 | | |
| | | 進口A8 (imported A8) | 154 | 153 | 172 | | |
| | | 進口Q7 (imported Q7) | 226 | 170 | 96 | | |
| | | 進口Q8 (imported Q8) | – | 1 | 24 | | |
| | | 進口RS (imported RS) | – | 4 | 2 | | |
| | | 進口RS3 (imported RS3) | 4 | – | – | | |
| | | 進口RS6 (imported RS6) | 6 | – | – | | |
| | | 進口RS7 (imported RS7) | 1 | – | – | | |
| | | 進口S3 (imported S3) | 47 | 32 | – | | |
| | | 進口S4 (imported S4) | 37 | 42 | 7 | | |
| | | 進口S5 (imported S5) | 14 | 15 | 6 | | |
| | | 進口S6 (imported S6) | 6 | – | – | | |
| | | 進口TT (imported TT) | 5 | – | – | | |
| | | | Porsche | 911 跑車系列 (911 series) | 91 | 97 | 146 |
| | | | | Boxster (Boxster) | 236 | 210 | 308 |
| | | | | Cayenne SUV系列 (Cayenne SUV series) | 2,006 | 1,608 | 1,670 |
| | | | | Cayman (Cayman) | 169 | 151 | 147 |
| | | | | MACAN (MACAN) | 1,815 | 2,047 | 1,647 |
| | | | | Panamera 轎跑系列 (Panamera series) | 826 | 724 | 661 |

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| Type | Brands | Models | Year Ended December 31, | | |
|------|---------------|--------------------------------------|-------------------------|------|------|
| | | | 2018 | 2019 | 2020 |
| | Mercedes-Benz | 國產A級 (A Class domestic manufactured) | – | 166 | 132 |
| | | 國產C級 (C Class domestic manufactured) | 574 | 516 | 421 |
| | | 國產E級 (E Class domestic manufactured) | 745 | 722 | 636 |
| | | 國產GLA級 (GLA domestic manufactured) | 195 | 121 | 23 |
| | | 國產GLB級 (GLB domestic manufactured) | – | 3 | 168 |
| | | 國產GLC級 (GLC domestic manufactured) | 641 | 680 | 669 |
| | | 國產G級 (G Class domestic manufactured) | – | – | 1 |
| | | 進口AMG (imported AMG) | 146 | 27 | 69 |
| | | 進口A級 (imported A Class) | 19 | 6 | 16 |
| | | 進口B級 (imported B Class) | 64 | 22 | 52 |
| | | 進口CLA級 (imported CLA Class) | 153 | 12 | 24 |
| | | 進口CLS級 (imported CLS Class) | 19 | 52 | 55 |
| | | 進口C級 (imported C Class) | 84 | 112 | 85 |
| | | 進口E級 (imported E Class) | 58 | 99 | 75 |
| | | 進口GLA (imported GLA Class) | – | 11 | – |
| | | 進口GLC級 (imported GLC Class) | 63 | 76 | 43 |
| | | 進口GLE級 (imported GLE Class) | 199 | 131 | 177 |
| | | 進口GLS級 (imported GLS Class) | 70 | 30 | 48 |
| | | 進口G級 (imported G Class) | 34 | 50 | 23 |

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| Type | Brands | Models | Year Ended December 31, | | |
|------|------------|-------------------------------------|-------------------------|------|------|
| | | | 2018 | 2019 | 2020 |
| | | 進口R級 (imported R Class) | 34 | – | – |
| | | 進口SLC級 (imported SLC Class) | 4 | 4 | – |
| | | 進口SL級 (imported SL Class) | 2 | – | – |
| | | 進口S級 (imported S Class) | 159 | 152 | 115 |
| | | 邁巴赫 (Maybach) | 233 | 276 | 245 |
| | | 其他 (others) | – | 2 | 23 |
| | Bentley | 飛馳 (Flying Spur) | 16 | 6 | 8 |
| | | 慕尚 (Mulsanne) | 2 | 2 | 1 |
| | | 歐陸 (Continental) | 2 | 4 | 5 |
| | | 添越 (Bentayga) | 6 | 12 | 16 |
| | Jaguar- | E-PACE (E-PACE) | – | – | 7 |
| | Land Rover | F-PACE (F-PACE) | – | – | 32 |
| | | XEL (XEL) | – | – | 94 |
| | | XFL (XFL) | – | – | 35 |
| | | 發神 (Discovery Sport) | – | 4 | 3 |
| | | 發現5 (Discovery 5) | – | 1 | 43 |
| | | 發現運動 (Discovery Sport) | – | – | 129 |
| | | 國產極光 (Evoque domestic manufactured) | – | 3 | 96 |
| | | 攬勝 (Range Rover) | – | 1 | 113 |
| | | 攬運 (Range Rover Sport) | – | 5 | 111 |
| | | 衛士 (Defender) | – | – | 45 |
| | | 星脈 (Velar) | – | 1 | 52 |
| | Imported | B8 (B8) | 133 | – | – |
| | Volkswagen | 甲殼蟲 (Beetle) | 119 | 55 | – |
| | | 進口B8 (imported B8) | – | 53 | – |
| | | 進口高爾夫 (imported Golf) | 5 | 7 | – |
| | | 凱路威 (Caravelle) | 19 | 10 | – |
| | | 邁特威 (Multivan) | 73 | 38 | – |
| | | 途觀 (Tiguan) | 84 | – | – |
| | | 途銳 (Touareg) | 278 | 256 | 241 |
| | | 進口途威 (imported Tiguan) | – | 64 | – |
| | | 夏朗 (Sharan) | 288 | 88 | – |

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| Type | Brands | Models | Year Ended December 31, | | |
|--|-----------------|-------------------------------------|-------------------------|---------------|---------------|
| | | | 2018 | 2019 | 2020 |
| | Volvo | 國產S60 (S60 domestic manufactured) | – | 25 | 110 |
| | | 國產S90 (S90 domestic manufactured) | 1 | 99 | 188 |
| | | 國產XC40 (XC40 domestic manufactured) | – | 26 | 89 |
| | | 國產XC60 (XC60 domestic manufactured) | 1 | 184 | 527 |
| | | 進口V40 (imported V40) | – | 1 | – |
| | | 進口V90CC (imported V90CC) | – | 6 | 24 |
| | | 進口XC90 (imported XC90) | – | 56 | 143 |
| | <i>Subtotal</i> | | 13,961 | 12,569 | 12,845 |
| | Total | | 14,113 | 13,233 | 13,480 |
| Total sales volume of new energy vehicles | | | 152 | 664 | 635 |
| Proportion of sales volume of new energy vehicles | | | 1.1% | 5.0% | 4.7% |

Since the demand for luxury and ultra-luxury automobiles comprises the brands of both electric vehicles and petroleum vehicles, if there is a shift in customers' preference from luxury and ultra-luxury petroleum vehicles to luxury and ultra-luxury electric vehicles in the automobile industry in the future, the demand for luxury and ultra-luxury automobiles will not decrease, according to the Frost & Sullivan Report. In the next few years, we expect that the sale of petroleum automobiles will continue to be the major revenue source of our business but we expect the types of new energy vehicle models and the proportion of new energy vehicles sold by our Group will increase in line with the electrification strategies of our automobile manufacturers.

Leveraging our extensive experience in the automobile dealership industry, a strong mix of brand in the portfolio and an established dealership network with a large customer base in China, we believe that we are able to quickly adapt ourselves to the evolving new energy vehicle market. To engage in the dealership business of new energy vehicles, we need to deploy the relevant equipment and facilities, such as the charging infrastructure, and make investments on staff training in relation to the sale and after-sales services of new energy vehicles. There is no material difference between petroleum vehicles and new energy vehicles in terms of sales and procurement. We expect that the traditional automobile manufacturers, including those that we currently cooperate with, will continue to rely on their authorized dealers to sell new energy vehicles and provide after-sales services because the established nationwide dealership network will enable the automobile manufacturers to quickly reach customers. Our existing dealership agreements did not stipulate any terms or requirements in relation to new energy

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vehicles. To the best knowledge of our Directors, except for the manufacturer of Mercedes-Benz, which classifies new energy vehicles as a sub-brand and requires dealers to enter into separate dealership agreements for the sale and provision of after-sales services for new energy vehicles, (i) the automobiles that we are authorized to procure and sell include both petroleum vehicles and new energy vehicles produced by the manufacturers; and (ii) we are able to procure and sell the new energy vehicles based on the existing dealership agreements going forward. We have communicated with the manufacturer of Mercedes-Benz and plan to enter into a dealership agreement with it for new energy vehicles in the second half of 2021.

With the implementation of manufacturers' automobile electrification strategies, we have equipped our dealership stores with necessary equipment and facilities, such as charging infrastructure, automotive diagnostic tools and other equipment based on the requirements and guidance of the relevant manufacturers for providing sales and after-sales services of new energy vehicles. Specifically, we have equipped our dealership stores with equipment and facilities for the repair and maintenance of new energy vehicles, including, among other things, protection work suits for high voltage electricity, high voltage testing adapters, cable kits and high voltage chargers. The automobile manufacturers provide regular training to our management and other staff, which cover various topics of new energy vehicles, including product specifications, user manuals and other service-related operational capabilities. Our staff for the repair and maintenance services have obtained certificates or qualifications for the repair and maintenance of new energy vehicles granted by manufacturers of new energy vehicles or relevant government authorities. We also provide technical training to our after-sales services team in relation to the features and structures of electric vehicles as well as the repair and maintenance tips of electric vehicles. We have also designated personnel to closely follow the progress of the electrification plans of our automobile manufacturers. We proactively discuss the business plans with the manufacturers regarding new energy vehicles and adjust our product mix to increase our procurement volume of new energy vehicles based on the market demand. We have provided, and will continue to provide, training to our sales and after-sales personnel to keep them abreast of the market development and enhance their knowledge and skills of new energy vehicles.

INTELLECTUAL PROPERTY RIGHTS

Under our typical dealership agreements, the automobile manufacturers have entitled us to use their trade names, trademarks and other branding material in our promotional activities provided that they are conducted in a manner consistent with the standards set by them. As of the Latest Practicable Date, we had registered 53 trademarks in the PRC and three trademarks in Hong Kong. As of the Latest Practicable Date, we had registered 16 domain names. See "C. Further Information about Our Business — 2. Intellectual property rights of our Group" in Appendix IV to this prospectus for further details of our material intellectual property rights.

Our Directors confirm that we have not knowingly infringed any other third parties' intellectual property rights during the Track Record Period that would have a material adverse impact on our business operations and financial condition. As of the Latest Practicable Date, we did not have any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

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INSURANCE

We carry insurance covering risks including losses of and damages to properties such as fixed assets and inventories at our stores and losses due to fire, flood, earthquake and a broad range of other natural disasters. In addition, we carry machine damage insurance for damage to machines and equipment at our dealership stores. We also carry public liability insurance, which protect us from claims or liabilities in connection with body injuries or property damage to a third party in the course of our business operations. However, we do not maintain insurance coverage for business interruption. We consider our insurance coverage to be adequate and in line with industry practices in China. During the Track Record Period and up to the Latest Practicable Date, we did not make any material insurance claims. However, should any significant uninsured damage to any of our properties, inventories or other assets or liabilities claims against us occur, our business, financial condition and results of operations may be adversely affected. See “Risk Factors — Risks Relating to Our Business — Our insurance may be inadequate to protect us from all potential losses” in this prospectus for more information.

EMPLOYEES

Our employees are critical to our success. We believe that we have good relationships with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any strikes, work stoppages or significant labor disputes, nor did we experience any significant difficulties in recruiting or retaining qualified employees.

As of December 31, 2018, 2019 and 2020, we had a total of 1,454, 1,468 and 1,298 full-time employees, respectively. As of the Latest Practicable Date, we had a total of 1,351 full-time employees. All of our employees are based in the PRC. The following table sets out the total number of our employees by function as of the Latest Practicable Date.

| | <u>Number of employees</u> | <u>% of total</u> |
|--|--------------------------------|----------------------|
| Senior management and managers of dealership stores . . | 21 | 1.6% |
| Administration, strategic development and human resources | 109 | 8.1% |
| Marketing and customer services | 114 | 8.4% |
| Finance and accounting | 118 | 8.7% |
| Sales | 377 | 27.9% |
| After-sales services | 612 | 45.3% |
| Total | <u>1,351</u> | <u>100.0%</u> |

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Under the relevant PRC laws and regulations, we are required to make contributions to mandatory social insurance funds, including pension, occupational injury insurance, maternity insurance, medical insurance and unemployment insurance. Furthermore, we are required, under the relevant PRC laws and regulations, to register with the relevant authorities and maintain relevant accounts with designated banks for making contributions to the housing provident funds for our employees.

We dedicate significant resources to personnel recruitment, promotion and training. We recruit employees through various channels, including, among others, internal referrals, recruitment agencies and online recruitment websites.

We offer attractive remuneration packages, including competitive fixed salaries plus performance-based bonuses. We offer our staff performance-based bonuses by taking into consideration of their work performance, technical skills, customer satisfaction degrees and other assessments based on the nature of their work. These performance bonuses are generally calculated on a monthly basis. Our employees are subject to regular job reviews which determine their promotion prospects and compensation. We place significant importance on internal promotion as a means to offer long-term career paths and performance incentives for our employees. We identify and promote outstanding employees by comprehensive evaluation, including sales performance, training and testing results, business and technical skills and customer satisfaction.

Our employees regularly attend training courses provided by both of us and the automobile manufacturers to improve their skill-set and stay current on new developments in the industry. The automobile manufacturers generally provide a wide variety of training to our management and other personnel, including, among others, sales, after-sales, marketing, customer services, insurance service, technical and financial staff.

PRODUCT LIABILITY AND CUSTOMER COMPLAINTS

When the automobiles, spare parts, accessories and other automobile-related products are delivered to our 4S dealership stores, we are responsible for the inspection of them. Our dealership agreements provided that we are entitled to exchange automobiles with defects upon product inspection during delivery as agreed by the automobile manufacturers.

Most of our dealership agreements do not specify that the automobile manufacturer is the party who is obliged to bear the product liability after the automobiles are being inspected and accepted by us. As advised by our PRC Legal Advisor, the product liability for automobiles sold in the PRC is governed by mandatory provisions of the PRC laws and regulations, including the Product Quality Law of the People's Republic of China (中華人民共和國產品質量法) and the 3R Provisions. Under these laws and regulations, any consumer who purchased a defective product may seek compensation from both the manufacturer and the retailer. The retailer may seek reimbursement from the manufacturer where the defect is attributable to the manufacturer unless any agreement between the manufacturer and the retailer provides otherwise. See “Regulatory Overview — Regulations Relating to Product Quality” in this prospectus for more details.

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Most of our dealership agreements do not contain explicit provisions regarding the allocation of responsibilities arising out of product liability claims. Nonetheless, we expect to be able to seek and receive reimbursement from automobile manufacturers for most of the claims for repairs, replacements and returns of automobile products from our customers if the liabilities are attributable to the manufacturers, according to the 3R Provisions. During the Track Record Period, we were subject to nine legal actions initiated by our customers in relation to the automobile sales contracts or product liabilities. These customers alleged that they purchased automobiles from us in reliance on our representations that the automobiles were new, in good quality, without repair history and equipped with spare parts or accessories that were manufactured by automobile manufacturers. However, according to their allegations, the automobiles they purchased were not consistent with our representations and they either requested to terminate the sales agreements or required compensation from us. For all legal disputes, the cases were closed because (i) the customer withdrew his claim; (ii) we had entered into settlements or mediation agreements with the customers; or (iii) a final judgement had been rendered by the relevant people's courts in the PRC. The aggregate amount of compensation that we were required to pay as a result of the legal disputes was approximately RMB1.8 million, which was insignificant. All the compensation that we were required to pay had been fully settled as of the Latest Practicable Date, including the compensation of RMB958,400 arising from the lawsuit disclosed in "Legal Proceedings and Regulatory Compliance" in this section, which was paid in May 2021. During the Track Record Period and up to the Latest Practicable Date, other than the nine legal actions mentioned above, we had not received any material product liability-related claims or complaints from customers. During the Track Record Period and up to the Latest Practicable Date, we had not received any complaints or claims regarding product liabilities from government authorities.

Our customer services staff are responsible for handling customer relationships. We have adopted a customer complaint policy which governs complaints received by our Group or our automobile manufacturers. Our customer services staff shall conduct customer satisfaction review to obtain feedback from our customers. If customers are dissatisfied with our services, we shall invite such customers to fill in a customer complaint form and such customer complaints will be followed up by the customer services department promptly after receipt of the complaint form.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We are subject to certain environmental laws and regulations relating to our operations in the PRC. For further details, see "Regulatory Overview" in this prospectus. We consider the protection of environment important and we have in place environmental protection measures and policies in our business operations. Our operations are subject to regulations and periodic examinations by local environmental and work safety authorities. During the Track Record Period, we had been subject to administrative penalties imposed by the local environmental protection authorities in connection with our failure to be in compliance with applicable environmental laws or regulations in the PRC.

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In January 2018, since two types of automobile models sold by our 4S dealership stores in Beijing were not listed on the catalog published by Beijing Environmental Protection Bureau of automobile models that meet environmental emission standards, we were subject to administrative penalties imposed by Beijing Environmental Protection Bureau. The non-compliance incident occurred primarily due to (i) the oversight of our handling personnel being unfamiliar with relevant regulatory requirements; and (ii) our failure to establish detailed procedures to review the compliance status of each automobile model before putting them on sale. According to the Regulations of Beijing Municipality on the Prevention and Control of Atmospheric Pollution (北京市大氣污染防治條例), enterprises that sell motor vehicles that are not included in the aforementioned environmental protection catalog shall be ordered by the municipal environmental protection administrative department to stop their illegal activities, confiscate their illegal income, and may impose a fine of no more than one time the value of the affected goods. We, as the seller, were ordered by the relevant government authorities to stop selling these two types of automobile models and forfeit income of RMB557,994.6, and were subject to an administrative fine of RMB557,994.6. As of the Latest Practicable Date, we had fully settled the administrative fines. We did not receive any reimbursement from the automobile manufacturer for the forfeited income and administrative fines in this regard. During the Track Record Period and up to the Latest Practicable Date, other than the incident disclosed above, all of the automobile models sold by our Group had been listed on the catalog published by Beijing Environmental Protection Bureau. To prevent recurrence of such non-compliance incident, we have adopted the following internal control measures: (i) we will proactively conduct self-review to ensure that each automobile model has been included in the relevant environment protection-related catalog before we display or sell any new automobile model at our dealership stores; (ii) we will make efforts to work with the relevant manufacturers to complete the required procedures in a timely manner if we identify any such kind of non-compliance in the future; and (iii) we have designated staff to monitor our on-going compliance and ensure that we comply with the regulatory requirements in material respects for our operations. Our Directors are of the view that none of the historical non-compliance and administrative penalties was fundamental to the daily operations of our 4S dealership stores.

In addition, we have implemented a system in recording and handling accidents during our business operations, especially the repair services. We require our employees to report any accident to its supervisors in a timely manner when the accidents happen. The supervisors will then report to the managers of our dealership stores and our human resources department. We will make record of such accidents. During the Track Record Period, we did not record any material accident in the course of our operations, nor did we receive material claims from our employees in relation to the personal or property damage.

Our Environmental, Social and Governance (ESG) Initiatives

Internal Policies for Environmental Protection

We consider the protection of environment to be important. We have implemented a series of internal policies for waste treatment in relation to our repair and maintenance services since 2016. The administrative department at each of our dealership stores is responsible for the

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overall management of waste treatment. For waste materials of our after-sales services, such as used engine oil, engine filter, engine oil cans and other used parts that recycling companies do not take, we require our dealership stores to store them carefully by category. Hazardous wastes are stored in a separate storage room with a warning sign and fire-fighting equipment installed at each dealership store. We engage third-party waste material recycling companies to collect and dispose of the wastes on a regular basis. In addition, for any new automobile model, we designate staff to track its regulatory compliance status in China and ensure that each model has been put into the relevant environment protection-related catalog and it has been in compliance with applicable environmental laws and regulations before we display or sell these models at our dealership stores.

The best knowledge and belief of our Directors, no material non-compliance or violation of environmental protection laws and regulations currently exist or persist that could materially and adversely affect our business operations and financial condition. In addition, during the Track Record Period and up to the Latest Practicable Date, our Directors were not aware of any actual environmental risks that could negatively impact our Group's businesses, strategies and financial performance.

Social Responsibility and Governance

We hire employees based on merit and it is our corporate policy to offer equal opportunities to our employees regardless of gender, age, race, religion or any other social or personal characteristics. During the Track Record Period, we complied with applicable PRC laws in relation to workplace safety in all material respects and did not have any incidents which materially and adversely affected our operations.

We also emphasize on business integrity as key to our long-term development in order to establish long-term and stable relationships with our customers, suppliers, employees and other participants in the automobile dealership industry. We endeavor to uphold the business integrity of our Group by maintaining a risk management and internal control system. Our risk management and internal control system and procedures are designed to meet our specific business needs and to alleviate the risks arising from our daily operations. For details on the enhanced policies to strengthen our internal governance, see "Risk Management and Internal Control" in this section.

Upon the Listing, our Directors confirm that they will closely monitor and ensure strict compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules (except for code provision A.2.1. See "Directors and Senior Management" – "Compliance with the Code Provisions of Appendix 14 to the Listing Rules"), the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to ESG aspects.

IMPLICATIONS OF EMISSION REGULATIONS FOR THE AUTOMOBILE INDUSTRY**Overview of the Emission Requirements for Automobiles in China**

Many of China's cities have had air quality issues over recent years. China is the world's largest automobile market and vehicle emissions have been a major source of pollution. As such, the PRC government is tackling the problem and significantly improving air quality by introducing and upgrading a series of emission standards for vehicles. The final version of the China Six Standard was jointly released by MEE and the General Administration of Quality, Supervision, Inspection and Quarantine on December 23, 2016. See "Risk Factors — Risks Relating to Our Business — Our revenue declined during the Track Record Period primarily due to the decrease in sales volume of automobiles, and our prospects are dependent on various factors, including but not limited to achieving revenue growth and our ability to cope with the fierce market competition from different market players" and "Regulatory Overview — Regulations Relating to Vehicle Emission Standards in China" in this prospectus for details.

Impact on Our Sales Performance

As advised by our PRC Legal Advisor, after the implementation of the China Six Standard nationwide from July 1, 2020, the production and import of light-duty vehicles that only satisfy the China Five Standard are prohibited in China. For the regions where we have operations, the China Six Standard has been implemented ahead of the State's schedule in Zhejiang, Sichuan, Guangdong and Shandong provinces and Tianjin since July 1, 2019, and in Beijing since January 1, 2020. A transition period, which is six months for Sichuan and three months for Beijing, Tianjin, Guangdong, Shandong and Zhejiang after the implementation of the China Six Standard, has been granted by the local governments. During the transition period, application for registration of vehicles that satisfy the China Five Standard was still accepted by the local government authorities. However, the implementation of the China Six Standard, which has set more stringent emission requirements for light-duty vehicles, has resulted in a transition between automobile models. The transition was completed by January 1, 2020 in Sichuan, by April 1, 2020 in Beijing and by October 1, 2019 in Tianjin, Shandong, Guangdong and Zhejiang. As a result of the transition between models to fulfill the emission requirements of the China Six Standard, the sales volume of our dealership stores for Bentley, Mercedes-Benz, Audi and imported Volkswagen in Beijing, Qingdao and Weifang decreased from 2018 to 2019 because consumers were inclined to hold off purchase decisions until the transition was completed. We adopted a conservative approach when purchasing our inventory for 2019 because automobiles manufactured under the old emission requirements had to be all sold off before the end of 2019 before the new requirements took effect. These old model automobiles were often sold by us at reduced prices due to the scheduled transition. As our manufacturers just transitioned to automobile models that met the new emission requirements as well, for a while the supplies of these new model automobiles available to us were limited in 2019. In addition, according to the Frost & Sullivan Report, as the China Six Standard was different from the emission standard set by the European Union, some of the imported automobile models that did not comply with China's emission standard were not allowed to enter the China

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market, which had led to a decrease in the imported volume of automobiles in China during the year of 2019. Meanwhile, automobile manufacturers are relatively more willing to supply the new automobiles, which comply with the emission requirements in China, to the dealers in areas where such new emission standard has been implemented. All of these factors contributed to the decrease in our sales for 2019 compared with 2018. In particular, for imported Volkswagen, except for Touareg (途銳), which had met the China Six Standard, all other imported Volkswagen models only met the China Five Standard and as a result were not qualified for sale, resulting in the decrease in the sales performance of this brand. In addition, the decrease in sales volume of Porsche automobiles from our dealership stores in Beijing and Tianjin was partially offset by an increase in sales volume of automobiles from our Porsche dealership stores in Chengdu, primarily because the local government in Sichuan province has granted a transition period to extend the effective date of the China Six Standard to January 1, 2020, which allowed our Porsche dealership stores in Chengdu to sell automobiles that satisfy both old and new emission requirements during July to December 2019. The implementation of the China Six Standard adversely affected the sales performance of our dealership stores in 2019. Since the automobile transition has been completed across the country (except certain provinces where our Group does not have operations) by June 2020, we do not expect the China Six Standard will have a continuous impact on our business operations going forward.

Compliance Status of Automobiles Sold by Our Group

By the end of 2019, the automobile inventory held by our 4S dealership stores had been completely in compliance with the China Six Standard and all automobile models sold by our dealership stores during 2020 had been fully in compliance with the China Six Standard. After the transition of automobile models, our total sales volume of automobiles increased from 13,233 units for the year ended December 31, 2019 to 13,480 units for the year ended December 31, 2020. According to the Frost & Sullivan Report, promoting the consumption of passenger vehicles has been listed as one of the key tasks of the PRC government in 2021 as part of the efforts to stimulate domestic demand and consumption. Based on the above, we do not expect that the implementation of the China Six Standard or the transition of automobile models will have a long-term adverse effect on our sales performance of automobiles.

IMPLICATIONS OF REGULATORY RESTRICTIONS ON AUTOMOBILE OWNERSHIP

Overview

As advised by our PRC Legal Advisor, the local government of certain cities where we have business operations, such as Beijing, Tianjin and Hangzhou, have implemented various regulations to restrict car ownership or limit the number of vehicles registered each year. For details, see “Risk Factors — Risks Relating to Our Business — Limits imposed by the PRC government on the purchase of new automobiles may adversely affect our business and results of operations” and “Regulatory Overview — Regulations Relating to Sales of New Automobiles — Regulations Relating to Adjusting and Controlling the Quantity of Vehicles” in this prospectus.

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Impact on Our Business Operations

The table below sets forth the license plate quota for small passenger vehicles granted by the local governments of Beijing, Tianjin and Hangzhou during the Track Record Period:

| | Year Ended December 31, | | |
|--------------------|--------------------------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| Beijing. | 100,000 | 100,000 | 100,000 |
| Tianjin. | 125,117 | 125,295 | 150,131 |
| Hangzhou | 81,599 | 83,009 | 83,764 |

According to the Frost & Sullivan Report, the number of petroleum vehicles sold in Beijing, Tianjin and Hangzhou during the Track Record Period is as follows, which demonstrates the changes subsequent to the effective dates of regulatory restrictions on the car ownership or the number of vehicles registered:

| | Year Ended December 31, | | |
|--------------------|--------------------------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| Beijing. | 281,468 | 313,698 | 296,640 |
| Tianjin. | 115,978 | 115,660 | 142,656 |
| Hangzhou | 203,733 | 203,088 | 191,220 |

According to the Frost & Sullivan Report, the number of petroleum vehicles owned by the customers in Beijing, Tianjin and Hangzhou during the Track Record Period is as follows, which demonstrates the changes subsequent to the effective dates of regulatory restrictions on the car ownership or the number of vehicles registered:

| | Year Ended December 31, | | |
|--------------------|--------------------------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| Beijing. | 5.7 million | 5.9 million | 6.0 million |
| Tianjin. | 3.0 million | 3.1 million | 3.3 million |
| Hangzhou | 2.6 million | 2.7 million | 2.8 million |

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The table below sets forth a breakdown of license plate quota by new energy vehicles and non-new energy vehicles in Beijing, Tianjin and Hangzhou, as well as Shanghai, Shenzhen and Guangzhou, which are the cities we intend to expand into:

| | Year Ended December 31, | | | | | |
|-----------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | 2018 | | 2019 | | 2020 | |
| | New Energy Vehicles | Non-New Energy Vehicles | New Energy Vehicles | Non-New Energy Vehicles | New Energy Vehicles | Non-New Energy Vehicles |
| Beijing | 60,000 | 40,000 | 60,000 | 40,000 | 60,000 | 40,000 |
| Tianjin | 19,571 | 105,546 | 21,347 | 103,948 | 10,000 | 140,131 |
| Hangzhou ⁽¹⁾ | N/A | 81,599 | N/A | 83,009 | N/A | 83,764 |
| Shanghai ⁽²⁾ | 63,113 | 134,896 | 52,799 | 112,119 | N/A | 173,726 |
| Shenzhen ⁽¹⁾ | N/A | 80,000 | N/A | 120,000 | N/A | 80,000 |
| Guangzhou. | 12,000 | 108,170 | 38,000 | 130,000 | 26,000 | 163,000 |

Notes:

- (1) Hangzhou and Shenzhen do not stipulate the license plate quota for new energy vehicles.
- (2) As of the Latest Practicable Date, the relevant governmental authority in Shanghai had not released the license plate quota for new energy vehicles for 2020.
- (3) Other cities where we operate or which we intend to expand into, including Qingdao, Chengdu, Foshan, Zhuhai, Nanjing, Suzhou and Chongqing, do not have regulatory restrictions on the license plate quota.

According to the Frost & Sullivan Report, the number of petroleum vehicles sold in these cities except Tianjin was higher than the license plate quota granted by the local governments for the year, primarily because a large number of new vehicles was sold for replacing/trading in an old model. In this way, the vehicle owner does not need to apply for a new license plate. In addition, driven by the increasing disposable income of Chinese residents, people would prefer to choose a higher class model when they decide to replace their cars. According to the Frost & Sullivan Report, the average age of passenger vehicles in China was approximately 4.9 years in 2020. Therefore, people will replace/trade in their automobiles in a relatively short period of time and the demand for passenger vehicles is not materially limited by license plate quota.

In addition, despite the regulatory restrictions imposed by the local governments in Beijing, Tianjin and Hangzhou on the quota for license plate registrations, the penetration rate of luxury and ultra-luxury passenger vehicles in these cities maintained a steady growth in the past few years. According to the Frost & Sullivan Report, in 2020, the sales volume of luxury and ultra-luxury passenger vehicles in Beijing, Tianjin and Hangzhou was 181,000 units, 107,400 units and 126,000 units, respectively, representing approximately 44.6%, 57.6% and 51.2% of the total sales volume of passenger vehicles in these three cities, respectively. The sales volume of ultra-luxury passenger vehicles in Beijing, Tianjin and Hangzhou increased at a CAGR of 7.3%, 5.5% and 5.1% from 2014 to 2020, respectively, and is expected to continue to grow at a CAGR of 4.3%, 3.9% and 5.9%, respectively, from 2020 to 2025. The sales volume

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of luxury passenger vehicles in these three cities also increased at a CAGR of 2.6%, 1.6% and 2.0% from 2014 to 2020, respectively, and will continue to grow at a CAGR of 2.5%, 2.2% and 3.5% from 2020 to 2025, respectively.

The table below sets forth our sales volume of automobiles in Beijing, Tianjin and Hangzhou during the Track Record Period:

| | Year Ended December 31, | | |
|-----------------------------------|-------------------------|-------|-------|
| | 2018 | 2019 | 2020 |
| Beijing ⁽¹⁾ | 10,228 | 9,516 | 9,300 |
| Tianjin ⁽¹⁾ | 784 | 719 | 613 |
| Hangzhou ⁽²⁾ | 428 | 256 | 760 |

Notes:

- (1) Our sales volume of automobiles in Beijing and Tianjin decreased from 2018 to 2019, mainly due to the transition of automobile models to fulfill the new requirements of the China Six Standard which have been implemented in Beijing and Tianjin since January 1, 2020 and July 1, 2019, respectively. This transition between models had a significant negative impact on the automobile sales performance of our dealership stores in Beijing and Tianjin in 2019 as consumers were inclined to hold off purchase decisions until the transition was completed. The sales volume of our dealership stores in Beijing and Tianjin further decreased in 2020, primarily because following the outbreak of COVID-19, during the Chinese New Year's holidays at the end of January 2020, the PRC government extended the public holiday period during which businesses remained closed. For the remainder of February and March 2020, we implemented staggered work shifts and only had part of our staff on duty during work hours. In the meanwhile, residents in these cities reduced non-essential activities as a result of COVID-19 concerns and postponed test-drives or automobile purchases.
- (2) The sales volume of automobiles in Hangzhou decreased from 2018 to 2019, primarily because the 4S dealership store that we operated in Hangzhou for imported Volkswagen was changed to operate Jaguar-Land Rover in 2019 and the sales volume was limited during the early stage of operations.

Based on the discussions above, our Directors consider that purchasing restriction policies in Beijing, Tianjin and Hangzhou vary from each other and customers in different cities have different needs and purchasing habits. Overall, although the license plate restriction policies may adversely affect the sales volume of first-purchases of customers, based on above analysis on the automobile markets in Beijing, Tianjin and Hangzhou and our sales volume of new automobiles subsequent to the effective dates of the restriction, we believe such restriction did not and will not have any material adverse impact on our business.

IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 Outbreak and Impact on Our Business Operations

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. During the COVID-19 outbreak, the PRC government implemented strict measures to control the outbreak in China, including schools and business closures, transport bans and workplace shutdowns. Following the outbreak of COVID-19,

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during the Chinese New Year's holidays at the end of January 2020, the government extended the public holiday period during which businesses remained closed. For the remainder of February and March 2020, we implemented staggered work shifts and only had part of our staff on duty during work hours. In the meanwhile, residents in Beijing as well as most other parts of China reduced non-essential activities as a result of COVID-19 concerns and postponed test-drives or automobile purchases. We have resumed our normal business operations since April 2020. Except for some sporadic new cases in a limited number of cities, COVID-19 has been largely contained in China and to the best knowledge of our management, all of our automobile suppliers/manufacturers resumed operations by the end of May 2020. During the COVID-19 outbreak, demands for passenger vehicles were significantly affected by the reduced consumer mobility. As a result, we received fewer orders from customers in the first quarter of 2020. Our total sales volume of automobiles decreased by approximately 32.9% from 2,822 units for the three months ended March 31, 2019 to 1,893 units for the three months ended March 31, 2020. However, with the nation-wide resumption of work in China, the sales volume of passenger vehicles, especially the luxury and ultra-luxury brands, has gradually recovered since the third quarter of 2020. For the second half of 2020, our sales volume of automobiles was 8,307, which was higher than the sales volume of automobiles of 7,085 during the same period for 2019. During the COVID-19 outbreak, we did not encounter any material shortage of supply of automobiles, especially the imported models. For the years ended December 31, 2019 and 2020, our sales volume of imported models was 7,727 units and 7,507 units, respectively, which remained relatively stable. As of December 31, 2020, the inventory of our imported automobile models was 427 units. For our after-sales services, our revenue generated from out-of-warranty repair services decreased from 2019 to 2020 mainly due to the reduced consumer mobility as a result of the COVID-19 outbreak.

In late 2020, after a third-party company in Beijing engaged in automobile spare part sales reported confirmed COVID-19 cases, certain auto parts packaging samples of our Mercedes-Benz dealership store in Beijing have tested positive for the COVID-19. All employees at our dealership stores of Mercedes-Benz, Porsche, Audi and Volvo, which are located in the same automobile park of Haidian district in Beijing, have conducted nucleic acid testing before the New Year's holidays of 2021. None of these employees have tested positive for the COVID-19. To better protect the safety and health of our employees and customers, (i) these dealership stores were temporarily closed from December 30, 2020 to January 12, 2021 and all employees of these dealership stores were required to stay home for 14 days of quarantine; and (ii) we thoroughly disinfected these dealership stores for a couple of times during the closing period. These dealership stores have resumed normal business operations since January 13, 2021.

To the best of knowledge of our Directors, as of the Latest Practicable Date, there had been no confirmed cases of COVID-19 infection of our Directors, senior management and staff.

Investors are cautioned that the actual impact caused by the outbreak of COVID-19 will depend on its subsequent development. Therefore, there is a possibility that such impact on our Group may be out of our Director's control and beyond our estimation and assessment should

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another wave of infections arise in China or the situation otherwise deteriorate. For risks associated with the COVID-19 pandemic, see “Risk Factors — Risks Relating to Our Business — Our business performance, financial condition and results of operations may be adversely affected by the outbreak of COVID-19” in this prospectus for details.

Our Contingency Plan and Response to the COVID-19 Pandemic

The spread of COVID-19 materially and adversely affected the economic conditions of, and business activities in, cities where we have operations. In line with the PRC government’s guidelines, we have adopted enhanced hygiene and precautionary measures to maintain a hygienic working environment. These measures include (i) establishing an emergency response team to enforce various detailed hygiene and precautionary measures; (ii) implementing staggered work shifts at our dealership stores; (iii) monitoring possible symptoms of COVID-19 among our employees and visitors to our offices by measuring their body temperatures; (iv) cleaning and disinfecting the common areas in our offices and dealership stores regularly; and (v) providing hand sanitizer, face masks and disinfectants for employees and track our employees’ travel history during the holidays.

In response to the COVID-19 pandemic, our 4S dealership stores have launched various online services, including online appointment for automobile maintenance, contactless pickup and delivery of automobiles and remote order placement. As of the Latest Practicable Date, we have not encountered and do not anticipate any obstacles in our operations with respect to (i) procurement of automobiles, spare parts, accessories and other automobile-related products; or (ii) material late deliveries or failures to fulfill the sales targets as a result of the COVID-19 pandemic.

Given the fact that (i) we have resumed normal operations since April 2020; (ii) our revenue increased from RMB8,178.8 million for the year ended December 31, 2019 to RMB8,533.1 million for the year ended December 31, 2020; (iii) our sales volume of automobiles increased from 13,233 units in 2019 to 13,480 units in 2020; and (iv) according to the Frost & Sullivan Report, the sales volume of new passenger vehicles is expected to recover from 2021 onwards due to the increasing demand for passenger vehicles in high-end market and the PRC government’s expected promotion of automobile sales after the COVID-19 pandemic, we do not believe that the COVID-19 outbreak will have any material adverse impact on our business strategies, and we believe that it does not and will not have a material adverse impact on our future business plans. See “Our Strategies” in this section and “Future Plans and Use of Proceeds” in this prospectus for details.

LICENSES, PERMITS AND APPROVALS

The License for Concurrent Business Insurance Agency held by Beijing BetterLife Star expired on March 5, 2021. We are in the process of renewing the license and are not aware of any material legal impediment for the renewal of such license. We have conducted an interview with the relevant government authority in April 2021, which confirmed that (i) the relevant authority in Beijing has suspended the services of renewal of the License for Concurrent

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Business Insurance Agency due to the new policies introduced under the Insurance Agent Regulation (保險代理人監管規定); and (ii) before they resume the renewal processing of such license, we can continue to engage in insurance agency services. Our PRC Legal Advisor advised us that the relevant government authorities and the interviewed individual are competent to make such confirmations. Save as disclosed above, we had obtained all requisite licenses, permits and approvals and completed the required filings with the relevant government authorities for our business operations in all material respects in the PRC as of the Latest Practicable Date. As of the Latest Practicable Date, such licenses, permits and approvals had not been revoked, cancelled or otherwise expired and we had not been materially penalized by the relevant authorities in the PRC for violations of laws and regulations. As advised by our PRC Legal Advisor, we are not aware of any material legal impediment to renewing such licenses, permits and approvals.

The table below sets forth the material licenses, permits and approvals we obtained for our operations in the PRC:

| License/Permit/ Approval | Holder | Issuing Body | Expiration Date/Record Filing Status |
|--|-------------------------------------|---|--|
| Road Transportation License (道路運輸經 營許可證) | 1. Beijing BetterLife Auto Trade | 1 to 3: Transportation Administration Bureau of Beijing Municipal Commission of Transport (北京市交通委 員會運輸管理局) | 1. May 9, 2024 2. September 9, 2021 3. August 26, 2021 |
| | 2. Beijing BetterLife Auto | | |
| | 3. Beijing BetterLife Star | | |
| | 4. Hangzhou BetterLife | | |
| | 5. Weifang BetterLife | | |
| | | 4. Hangzhou Motor Vehicle Service Administration Bureau (杭州市機動車服務管理 局) | 4. November 7, 2023 5. December 23, 2023 |
| | | 5. Automobile Maintenance Industry Management Office, Fangzi District, Weifang (濰坊市坊子區 汽車維修行業管理所) | |

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| License/Permit/ Approval | Holder | Issuing Body | Expiration Date/Record Filing Status |
|--|------------------------------------|---|--|
| Motor Vehicle Repair and Maintenance Business License (機動車維修經營許可證)/Motor Vehicle Repair and Maintenance Business Record Filing (機動車維修經營備案) | 1. Qingdao BetterLife Service | 1. Motor Vehicle Maintenance Industry | 1. March 20, 2022 |
| | 2. Qingdao BetterLife Trade | Management Office of Chengyang District, Qingdao (青島市城陽區機動車維修行業管理所) | 2 to 7: Record filings completed |
| | 3. Qingdao BetterLife Auto | | |
| | 4. Beijing BetterLife Experimental | 2 and 3. Transportation Bureau of Chengyang District, Qingdao (青島市城陽區交通運輸局) | |
| | 5. Chengdu Xinbao | | |
| | 6. Beijing BetterLife Group | 4. Haidian Transportation Management Branch of Beijing Municipal Commission of Transport (北京市交通委員會海淀運輸管理分局) | |
| | 7. BetterLife Tianjin | 5. Road Transportation Administration Office of Chengdu High Technology Industrial Development Zone (成都市高新技術產業開發區交通運輸管理所) | |
| | | 6. Chaoyang Transportation Management Branch of Beijing Municipal Commission of Transport (北京市交通委員會朝陽運輸管理分局) | |
| | | 7. Tianjin Airport Economic Zone Transportation Management Bureau (天津空港經濟區交通運輸管理局) | |

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| License/Permit/ Approval | Holder | Issuing Body | Expiration Date/Record Filing Status |
|--|---|--|--|
| First-class Automobile Repair and Maintenance Enterprise (Small Car Repair) (一類汽車維修企業(小型車維修)) | Beijing BetterLife International | Haidian Transportation Management Branch of Beijing Municipal Commission of Transport (北京市交通委員會海淀運輸管理分局) | Record filing completed |
| Second-class Automobile Repair and Maintenance Enterprise (Small Car Repair) (二類汽車維修企業(小型車維修)) | Chengdu Jinbao | Housing Construction and Transportation Bureau of Jinniu District, Chengdu (成都市金牛區住房建設和交通運輸局) | Record filing completed |
| First-class Motor Vehicle Repair and Maintenance Enterprise Record Filing (一類機動車維修企業經營備案) | Laifu Auto | Comprehensive Administrative Law Enforcement Office, Lunjiao Street, Shunde District, Foshan (佛山市順德區倫敦街道綜合行政執法辦公室) | Record filing completed |
| Pre-owned Automobile Dealership Enterprise (二手車經銷企業) | Laifu Auto | Foshan Municipal Bureau of Commerce (佛山市商務局) | Record filing completed |
| License for Concurrent-business Insurance Agency (保險兼業代理業務許可證) | 1. Beijing BetterLife Group 2. Beijing BetterLife Star 3. Hangzhou BetterLife 4. Tianjin BetterLife Auto | 1 and 2: Beijing Supervision Bureau of China Insurance Regulatory Commission (中國保險監督管理委員會北京監管局) 3. Zhejiang Supervision Bureau of China Insurance Regulatory Commission (中國保險監督管理委員會浙江監管局) 4. Tianjin Supervision Bureau of China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會天津監管局) | 1. March 5, 2024 2. March 5, 2021 ⁽¹⁾ 3. October 25, 2023 4. January 3, 2023 |

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| License/Permit/ Approval | Holder | Issuing Body | Expiration Date/Record Filing Status |
|---|--|--|---|
| Filing Record of Foreign Trade Business Operators (對外貿易經營者備案) | Beijing BetterLife Group | Beijing Municipal Bureau of Commerce (北京市商務局) | Record filing completed |
| Customs Declaration Unit Registration Certificate (海關報關單位註冊登記證) | Beijing BetterLife Group | Beijing Customs (北京海關) | Record filing completed |
| Self-care Inspection Unit Registration Record (自理報檢單位備案登記) | Beijing BetterLife Group | Beijing Entry-Exit Inspection and Quarantine Bureau (北京出入境檢驗檢疫局) | Record filing completed |
| Pollution Discharge License (排污許可證) | 1. Beijing BetterLife Trade 2. Chengdu Jinbao 3. Chengdu Xinbao 4. Hangzhou BetterLife 5. Beijing BetterLife Auto 6. Beijing BetterLife Star 7. Beijing BetterLife International | 1. Administrative Approval Bureau of Beijing Economic and Technological Development Zone (北京經濟技術開發區行政審批局) 2 to 3: Chengdu Ecological Environment Bureau (成都市生態環境局) 4. Binjiang Branch of Hangzhou Ecological Environment Bureau (杭州市生態環境局濱江分局) 5 to 7: Beijing Haidian District Ecological Environment Bureau (北京市海淀區生態環境局) | 1. December 23, 2022 2. July 14, 2023 3. July 23, 2023 4. June 17, 2023 5. October 20, 2025 6. July 26, 2023 7. July 22, 2023 |
| Fixed Pollution Source Discharge Registration (固定污染源排污登記) | Laifu Auto | NA | September 27, 2025 |

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| License/Permit/ Approval | Holder | Issuing Body | Expiration Date/Record Filing Status |
|--|---------------|---|---|
| Approval Certificate of Environmental Impact Report for Construction Project in Shunde District (順德區建設項目環境影響報告批准證) | Laifu Auto | Lunjiao Supervision and Management Office of Shunde Branch of the Municipal Ecological Environment Bureau of Foshan (佛山市生態環境局順德分局倫教監督管理所) | Permanent |

Note:

- (1) The License for Concurrent Business Insurance Agency held by Beijing BetterLife Star expired on March 5, 2021. We are in the process of renewing the license and are not aware of any material legal impediment for the renewal of such license.

DISCONTINUED OPERATIONS

Pawn Loan Services

We established Yiwei Diandang and obtained the requisite business license for pawnbroking in August 2017 with an aim to providing pawn loan services to our customers while they pledged their personal and other properties including automobiles as collateral. We believe offering diversified services would help us maintain long-term relationships with our customers as well as to secure a potential source of second-hand used cars. During the Track Record Period, we granted short-term loans to certain customers who used collateral including personal properties, such as jewellery, artworks and other chattels. During the Track Record Period, we operated one pawnshop at the automobile park of Haidian district in Beijing.

When a customer presented a collateral at our pawnshop, our appraisal team inspected it and then provided their authentication and appraisal opinion. Upon inspection and valuation of the collateral, we typically offered a loan amount at a mutually agreed interest rate. The collateral would then be sealed and passed to us for custody. We would fill in and sign a pawn ticket with the borrower and release the net amount of the loan (after deducting the amount of interest and composite administrative fees). The pawn loan was generally granted for a term of 30 days. A borrower might apply for renewing a pawn loan for another 30 days within five days after its expiration. Such renewal application would be subject to our approval under substantially the same procedure as for a new loan. When the borrower repaid all the principal amount of loan, the collateral would be released and the loan transaction would be discharged.

For the years ended December 31, 2018, 2019 and 2020, we had a total of nine, nine and four loans with income contribution, respectively, which had an aggregate principal amount of RMB39.9 million, RMB36.9 million and RMB45.0 million for the same years, respectively. As

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of December 31, 2018, 2019 and 2020, the number of outstanding loans was eight, four and nil, respectively. For the years ended December 31, 2018, 2019 and 2020, interest income generated by Yiwei Diandang from pawn loan services was RMB7.6 million, RMB4.4 million and RMB1.5 million, respectively.

As the operational performance of Yiwei Diandang did not meet our expectations and we intended to focus our business operations on automobile dealership services, we deregistered Yiwei Diandang in January 2021 and discontinued our pawn loan services.

The discontinuation of pawn loan services did not constitute discontinued operations under IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” because such discontinued business cannot represent an independent business or a separate business area, nor is it a part of an independent business or a separate business area disposal plan, and it is not acquired for the purpose of resale. Accordingly, there is no accounting implication arising from the discontinued pawn loan business.

PROPERTIES

As of the Latest Practicable Date, we occupied four parcels of land in the PRC with a total gross site area of 104,986.6 sq.m. and five buildings in the PRC with a total gross floor area of 30,199.0 sq.m. As of the Latest Practicable Date, we also leased 27 properties in the PRC with a total gross floor area of 80,120.8 sq.m. All of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of the Latest Practicable Date, we had no single property interest that forms part of our non-property activities having a carrying amount of 15% or more of our total assets as of December 31, 2020. On that basis, we are not required under Rule 5.01B of the Listing Rules to include in this prospectus any valuation report.

Owned Properties

Land

As of the Latest Practicable Date, we occupied four parcels of land with an aggregate gross site area of 104,986.6 sq.m. The parcels of land in Beijing and Qingdao were primarily used for the premises of our 4S dealership stores. As of the Latest Practicable Date, we leased the properties on the parcel of land in Weifang to an Independent Third Party for its operations of a 4S dealership store. We had obtained all land use rights certificates for the four parcels of land.

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The table below sets forth a summary of our land use rights as of the Latest Practicable Date:

| No. | Land Use Right Owner | Location | Site Area (sq.m.) | Permitted Use | Consistency between the Actual Use and the Approved Use |
|--------------|-------------------------------|---|----------------------|---------------------------|--|
| 1. | Beijing BetterLife Group | Beijing Economic and Technological Development Zone W1-1 (北京經濟技術開發區W1-1) | 15,462.6 | Industrial use | No |
| 2. | Qingdao BetterLife Service | 177 Chengyang Section, 308 National Road, Qingdao (青 島市308國道城陽段177號) | 17,988.0 | Industrial use | No |
| 3. | Qingdao BetterLife Service | 877 Central Heilongjiang Road, Chengyang District, Qingdao (青島市城陽區黑龍 江中路877號) | 32,089.0 | Industrial use | No |
| 4. | Weifang BetterLife | West of Weizhou Road, South of Bama Road, Fangzi District, Weifang (濰坊市坊子區濰州路以西、 八馬路以南) | 39,447.0 | Commercial service use | Yes |
| Total | | | <u>104,986.6</u> | | |

Property Defects

As of the Latest Practicable Date, the three parcels of land that we occupied in Beijing and Qingdao were primarily used for operating our 4S dealership stores, while the permitted use as set out on the land use rights certificates of these three parcels of land was industrial. The non-compliance occurred primarily due to the handling personnel of our Group being unfamiliar with the relevant regulatory requirements.

Legal Consequences and Maximum Penalty

As advised by our PRC Legal Advisor, pursuant to the Land Administration Law of the PRC (中華人民共和國土地管理法) and other relevant regulations, if the State-owned land is not used for the approved purpose, the land administrative department of the government at or above the county level shall order the land to be returned and a fine shall be imposed. According to the Urban and Rural Planning Regulations of Beijing (北京市城鄉規劃條例), if

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the construction project is put into use, the construction unit or owner violates the rural planning use control regulations and changes the nature of the use of the properties without authorization, it shall be ordered to make corrections within a time limit, and a fine in the amount of twice the price of the land use rights payable according to the actual use of the land shall be imposed. If the circumstances are serious, the land use rights shall be recovered without compensation in accordance with the regulation. In addition, according to the Urban and Rural Planning Regulations of Qingdao (青島市城鄉規劃條例), if the construction unit or individual changes the nature of the use of the properties without authorization, it shall be ordered to make corrections within a time limit, and a fine ranging from RMB100 to RMB500 per square meter shall be imposed on the basis of the gross floor area of the properties. An additional penalty of 3.0% of the fine will be imposed each day if the construction unit or individual fails to make corrections within the prescribed time limit. As advised by our PRC Legal Advisor, according to the applicable PRC laws and regulations, the total penalties that our Group may be subject to for changing the permitted use of (i) the three parcels of land in Beijing and Qingdao; and (ii) the buildings constructed on the parcel of land in Qingdao range between approximately RMB3.0 million and RMB10.3 million. Our PRC Legal Advisor further advised us that the penalties for changing the permitted use of the buildings constructed on the parcel of land in Beijing will be two times the amount of the price for obtaining the land use rights according to its actual use, and if the circumstances are serious, the land use rights shall be recovered without compensation.

Rectification Measures Taken and Status as of the Latest Practicable Date

We conducted an interview with the comprehensive law enforcement department of Beijing Economic and Technological Development Zone in October 2020 with respect to the parcel of land in Beijing. The interviewed officer verbally confirmed that (i) the department had not imposed any administrative penalties on us for not using the land as approved purpose; and (ii) under the circumstances that there are no major changes in the current effective regulatory requirements, we can continue to carry out our business operations on the land, and will not be punished by the bureau for the use of the land and the relevant buildings. In November 2020, we conducted an interview with the natural resources management department of Qingdao Chengyang District with respect to the two parcels of land in Qingdao. The interviewed officer verbally confirmed that (i) Qingdao BetterLife Service was the legal land use rights holder, which had the right to use the land exclusively; (ii) the department had never imposed any administrative penalties on us for the use of the land and the relevant buildings; and (iii) we can continue to operate our 4S dealership store on this land and will not be subject to any penalties imposed by the department. On March 1, 2021, we conducted an interview with the natural resources management department of Qingdao, a higher authority of the natural resource management department of Qingdao Chengyang District. The interviewed officer verbally confirmed that the natural resources management department of Qingdao Chengyang District is competent to give such confirmations to us in respect of the two parcels of land we occupied in Qingdao.

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According to the public information inquiry conducted by our PRC Legal Advisor and the confirmations of the government authorities, (i) the main responsibilities of the comprehensive law enforcement department of Beijing Economic and Technological Development Zone include the comprehensive law enforcement work in relation to the implementation of urban management, housing construction, safety production, environmental protection, transportation and water affairs; and (ii) the key responsibilities of the natural resources management department of Qingdao Chengyang District include the management and planning of natural resources. Therefore, our PRC Legal Advisor confirmed that both the comprehensive law enforcement department of Beijing Economic and Technological Development Zone and the natural resources management department of Qingdao Chengyang District are competent authorities in China to provide the confirmations in relation to the inconsistency between the actual use and the approved use of properties. Our Directors confirmed that such confirmations had not been challenged by higher authorities as of the Latest Practicable Date and our PRC Legal Advisor further advised us that the risks of such confirmations being challenged by higher authorities are low as they are all competent authorities in China to give such verbal confirmations. Based on the above, our PRC Legal Advisor is of the view that the risks of Beijing BetterLife Group and Qingdao BetterLife Service being punished by the relevant government authorities for using the industrial land to operate 4S dealership stores are relatively low.

Our PRC Legal Advisor further advised us that as we are the holder of these land use rights in Beijing and Qingdao and we have ownership over the properties constructed on such land, we have the right to occupy, use, lease, transfer, mortgage or dispose of these properties through other legal methods in accordance with the applicable PRC laws and the relevant property ownership documents. In addition, as the competent government authorities have confirmed that we are allowed to continue to use abovementioned properties for our business operations, our PRC Legal Advisor is of the view that the risk of our self-owned properties being prevented from buying, selling or being accepted by banks as security for mortgages due to the existence of inconsistency between the actual use and the planned use of the land is low, provided that the land use rights are not recovered by the relevant government authorities.

Buildings

As of the Latest Practicable Date, we owned and occupied five buildings located in the PRC with an aggregate gross floor area of 30,199.0 sq.m. Except for the property owned by Weifang BetterLife, which has been leased to an Independent Third Party for its operations of a 4S dealership store, all of our owned properties are primarily used for the operations of our 4S dealership stores. As of the Latest Practicable Date, we had obtained building ownership certificates for all these properties.

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The table below sets forth details of the buildings owned and used by us as of the Latest Practicable Date:

| No. | Owner | Address | Gross Floor Area (sq.m.) | Property Defects ⁽¹⁾ |
|--------------|----------------------------------|--|-----------------------------|---|
| 1. | Beijing BetterLife Group | 1 North Donghuan Road, Beijing Economic and Technological Development Zone (北京經濟技術 開發區東環北路1號) | 5,445.2 | Inconsistency between the actual use and the approved use |
| 2. | Beijing BetterLife Group | 1 North Donghuan Road, Beijing Economic and Technological Development Zone (北京經濟技術 開發區東環北路1號) | 864.1 | Inconsistency between the actual use and the approved use |
| 3. | Beijing BetterLife Group | 1 North Donghuan Road, Beijing Economic and Technological Development Zone (北京經濟技術 開發區東環北路1號) | 2,330.8 | Inconsistency between the actual use and the approved use |
| 4. | Qingdao BetterLife Service | 877 Central Heilongjiang Road, Chengyang District, Qingdao (城 陽區黑龍江中路877號) | 16,673.5 | Inconsistency between the actual use and the approved use |
| 5. | Weifang BetterLife | Exhibition Hall 1, 6422 Leshan Street, Fangzi District, Weifang (濰坊市 坊子區樂山街6422號1號展廳) | 4,885.4 | NA |
| Total | | | 30,199.0 | |

Note:

- (1) For legal consequences and maximum penalty, and our PRC Legal Advisor's view on the inconsistency between the actual use and approved use of our owned properties, see "Properties — Owned Properties — Land" above in this section.

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Leased Properties

As of the Latest Practicable Date, we leased 27 properties with a total gross floor area of 80,120.8 sq.m.

The table below sets forth details of our leased properties as of the Latest Practicable Date:

| No. | Lessee | Lessor | Address | Use | Gross Floor Area (sq.m.) | Lease Term | Property Defects |
|-----|--------------------------|---|--|--|--------------------------------|--------------------------------------|---|
| 1. | BetterLife Tianjin | Tianjin Guomao | 59 Automobile Yuanzhong Road, Tianjin Pilot Free Trade Zone (Airport Economic Zone) (天津自貿試驗區(空港經濟區)汽車園中路59號) | Showrooms and repair and maintenance service workshops | 9,336.1 | November 1, 2020 to October 31, 2025 | Non-registration of lease agreement ⁽³⁾ |
| 2. | BetterLife Tianjin | Tianjin Guomao | 66 North Huanhe Road, Tianjin Pilot Free Trade Zone (Airport Economic Zone) (天津自貿試驗區(空港經濟區)環河北路66號) | Showrooms and repair and maintenance service workshops | 1,164.0 | November 1, 2020 to October 31, 2025 | Non-registration of lease agreement ⁽³⁾ |
| 3. | Laifu Auto | An Independent Third Party | The east side of Licun Section, Guangzhu Road, Licun Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (佛山市順德區倫教街道辦事處荔村委會廣珠路荔村路段東側) | 4S dealership store | 5,700.0 | October 1, 2020 to August 8, 2028 | Non-registration of lease agreement ⁽³⁾ |
| 4. | Hangzhou BetterLife | Oule (Hangzhou) Automobile Technology Co., Ltd. (歐樂(杭州)汽車科技有限公司), a connected person of our Company | The First Floor, Building 1, 1780 Jiangling Road, Binjiang District, Hangzhou (including the inner second floor) (杭州市濱江區江陵路1780號1幢1層(包括內2層)) | 4S dealership store | 6,994.4 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 5. | Beijing BetterLife Group | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Offices | 2,460.0 | July 1, 2020 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 6. | Beijing BetterLife Star | BetterLife Tianjin ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Automobile sales and repairs (the expanded construction) | 2,919.5 | January 1, 2021 to November 30, 2023 | (i) Inconsistency between the actual use and the approved use; (ii) lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |

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| No. | Lessee | Lessor | Address | Use | Gross Floor Area (sq.m.) | Lease Term | Property Defects |
|-----|-------------------------|---|---|---|--------------------------------|--------------------------------------|---|
| 7. | Beijing BetterLife Star | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Workshops (the expanded construction) | 994.9 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; (ii) lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |
| 8. | Beijing BetterLife Star | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Repair workshops | 1,793.3 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 9. | Beijing BetterLife Star | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Dormitories for employees | 356.0 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 10. | Beijing BetterLife Star | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Automobile workshops | 1,544.6 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 11. | Beijing BetterLife Star | Beijing BetterLife Group ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Showrooms and workshops for Mercedes-Benz (the expanded construction) | 5,654.4 | January 1, 2021 to November 30, 2023 | (i) Inconsistency between the actual use and the approved use; (ii) lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |
| 12. | Beijing BetterLife Star | Beijing BetterLife Group ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Offices (the expanded construction) | 2,864.0 | January 1, 2021 to November 30, 2023 | (i) Inconsistency between the actual use and the approved use; (ii) lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |
| 13. | Beijing BetterLife Auto | BetterLife Tianjin ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Automobile sales and repairs (the expanded construction) | 1,201.9 | January 1, 2021 to November 30, 2023 | (i) Inconsistency between the actual use and the approved use; (ii) lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |
| 14. | Beijing BetterLife Auto | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Dormitories for employees | 167.0 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 15. | Beijing BetterLife Auto | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Building workshop for Audi | 1,000.0 | April 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |

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| No. | Lessee | Lessor | Address | Use | Gross Floor Area (sq.m.) | Lease Term | Property Defects |
|-----|----------------------------------|---|---|---|--|--------------------------------------|---|
| 16. | Beijing BetterLife Auto | Beijing BetterLife Group ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Showrooms of Porsche (the expanded construction) | 3,097.7 | January 1, 2021 to November 30, 2023 | (i) Inconsistency between the actual use and the approved use; (ii) lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |
| 17. | Beijing BetterLife International | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Automobile sales and repairs | 10,125.7 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 18. | Beijing BetterLife International | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Dormitories for employees | 112.0 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 19. | Beijing BetterLife Experimental | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Automobile sales | 1,430.5 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 20. | Beijing BetterLife Experimental | Beijing Zhoushi ⁽¹⁾ | 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院) | Repair and maintenance service workshops, guest rooms and offices | 1,484.0 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 21. | Yiwei Cultural | Beijing Zhoushi | Four warehouses on the second floor of the 3M Automobile workshop, Building 24, 35 Wukong Bridge, Haidian District, Beijing (北京市海澱區五孔橋35號院24號樓3M車間二層4間庫房) | Warehouses | 130.0 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 22. | Chengdu Xinbao | Chengdu Riyue Industrial Development Stock Co., Ltd. (成都日月產業發展股份有限公司) ⁽²⁾ | Guanghua Industrial Park, Chengdu High-technology Zone (成都高新區光華工業園) | Workshops, showrooms and offices | 1,664.00 (showrooms) 8,058.00 (workshops and offices) | April 1, 2014 to February 26, 2028 | (i) Inconsistency between the actual use and the approved use; (ii) the showrooms lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |
| 23. | Chengdu Jinbao | Sichuan Chuanwu Automobile Import and Export Trade Corporation (四川省川物汽車進出口貿易總公司) (“Chuanwu Trade”), a connected person of our Company | 173 Shuxi Road, Jinniu District, Chengdu (成都市金牛區蜀西路173號) | Automobile sales and services center | 9,910.0 | 15 years from April 1, 2014 | (i) Failure of the lessor to obtain land use rights certificate; (ii) lack of requisite permits and certificates for constructions; and (iii) non-registration of lease agreement |

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| No. | Lessee | Lessor | Address | Use | Gross Floor Area (sq.m.) | Lease Term | Property Defects |
|--------------|-------------------------------|--|---|------------------------|--------------------------------|--------------------------------------|---|
| 24. | Beijing BetterLife Group | Beijing Zhoushi Xingye International Trading Co., Ltd. (北京周氏興業國際貿易有限公司), a connected person of our Company | Building 2-807, Courtyard 1, East Guantang Road, Chaoyang District, Beijing (北京市朝陽區觀唐東路1號院2-807幢) | Apartments and offices | 468.4 | January 1, 2020 to December 31, 2024 | Non-registration of lease agreement ⁽³⁾ |
| 25. | Beijing BetterLife Group | Beijing Zhoushi | 8-2, Floor one to three, Jingfeng Garden, 1 Xindian Road, Chaoyang District, Beijing (北京市朝陽區辛店路1號靜風園8棟-1至3層8-2) | Apartments and offices | 359.1 | January 1, 2020 to December 31, 2024 | Non-registration of lease agreement ⁽³⁾ |
| 26. | Beijing BetterLife Auto Trade | Beijing BetterLife Group | Building 1 and Building 2, 1 North Donghuan Road, Beijing Economic and Technological Development Zone (北京經濟技術開發區東環北路1號1幢和2幢) | 4S dealership store | 6,309.3 | January 1, 2021 to December 31, 2023 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| 27. | Qingdao BetterLife Auto | Qingdao BetterLife Service | South of the First Floor of Building 1, 877 Central Heilongjiang Road, Chengyang District, Qingdao (青島市城陽區黑龍江中路877號園區1號樓一層南側) | 4S dealership store | 880.0 | January 1, 2021 to December 31, 2025 | (i) Inconsistency between the actual use and the approved use; and (ii) non-registration of lease agreement |
| Total | | | | | <u><u>80,120.8</u></u> | | |

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Notes:

- (1) These properties are located on a parcel of land in Haidian district, Beijing, for which Beijing Zhoushi is the holder of the land use right. Beijing Zhoushi has the ownership of these properties. On January 1, 2020, Beijing Zhoushi, BetterLife Tianjin and Beijing BetterLife Group entered into a framework agreement with Beijing BetterLife Star, Beijing BetterLife Auto, Beijing BetterLife International and Beijing BetterLife Experimental, pursuant to which, (i) prior to November 30, 2023, BetterLife Tianjin has the right to lease the properties and collect rent from lessees with respect to the properties occupied by our Mercedes-Benz and Porsche dealership stores in Haidian district, Beijing; (ii) from December 1, 2023, Beijing Zhoushi, which is the owner of these properties, will collect rent from lessees directly; (iii) the area of certain properties increased due to the reconstruction and expansion, which was funded by Beijing BetterLife Group for Beijing Zhoushi. Therefore, Beijing BetterLife Group has the right to lease and collect rent for the reconstructed and expanded areas prior to November 30, 2023; and (iv) from December 1, 2023, Beijing Zhoushi, which is the owner of these expanded constructions, will collect rent from lessees directly.
- (2) A company held by Tianjin Guomao and Chuanwu Trade as to approximately 45% and approximately 34%, respectively, as of the Latest Practicable Date. The remaining shareholders are 17 individuals, who were Independent Third Parties, as of Latest Practicable Date.
- (3) As of the Latest Practicable Date, we had rectified and completed the registration of these properties.

Property Defects

(1) Inconsistency between the actual use of the leased properties and the approved use

As of the Latest Practicable Date, (i) the property leased by Hangzhou BetterLife; (ii) the properties leased by Beijing BetterLife Group, Beijing BetterLife Star, Beijing BetterLife Auto, Beijing BetterLife International, Beijing BetterLife Experimental and Yiwei Cultural from Beijing Zhoushi; and (iii) the properties leased by Chengdu Xinbao were used for the operations of our 4S dealership stores, while the approved use for these properties was industrial or non-residential. Under the relevant PRC laws and regulations, the approved use for the properties used for the operations of showrooms and workshops should be commercial. The non-compliance occurred primarily due to the handling personnel, who is responsible for property leasing at our Group, being unfamiliar with the relevant regulatory requirements and our failure to establish detailed procedures to review and inspect the compliance status of leased properties before the commencement of operations.

Legal Consequences

Our PRC Legal Advisor advised us that, pursuant to the Land Administration Law of the PRC (中華人民共和國土地管理法) and other relevant regulations, if the State-owned land is not used for the approved purpose, the land administrative department of the government at or above the county level shall order the land to be returned and a fine shall be imposed. Our PRC Legal Advisor also advised us that, according to the Regulations on Urban and Rural Planning of Hangzhou City (杭州市城鄉規劃條例), if the owner of a property changes the use of the property without approval, the relevant government authorities shall (i) order the owner of the property to rectify within a time limit; (ii) confiscate the illegal income; and (iii) impose a fine no less than RMB2,000 but not more than RMB20,000 on individuals, or a fine ranging between RMB10,000 and RMB100,000 on units. In addition, according to the Regulations of Beijing Municipality on Urban and Rural Planning (北京市城鄉規劃條例), the planned and permitted use of a construction project shall not be changed without approval. If the

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construction unit or the owner of the properties changes the use without authorization after the properties are put into use, the relevant government authorities shall order the parties to make corrections within a time limit and impose a fine of two times the amount of the price for obtaining the land use rights according to the type of actual use; and if the circumstances are serious, the land use rights shall be recovered without compensation.

Our PRC Legal Advisor also advised us that, we, as the lessee of the properties, were not subject to the abovementioned liabilities. However, we face risks of not being able to continue to use the land and the leased properties to carry out our businesses if the relevant government authorities order the owner to return the land or properties.

Rectification Measures Taken and Status as of the Latest Practicable Date

We obtained a written confirmation from the planning and natural resources management department of Hangzhou Binjiang District in November 2020, and conducted an interview with this department in June 2021, which confirmed that (i) it had not found any illegal incident with respect to our use of the properties since January 1, 2018 and we had not been subject to any administrative penalties imposed by the department; and (ii) under the circumstances that there are no major changes in the current effective regulatory requirements, it recognized our current use of these properties, we can continue to carry out our business operations on these parcels of land and will not be punished by it for our use of the land and the relevant buildings. As advised by our PRC Legal Advisor, (i) we are legally entitled to operate workshops and showrooms in our dealership stores on properties that are designated for commercial use; and (ii) workshops do not need to be on properties designated for industrial use.

We also conducted interviews with the planning and natural resources management department of Beijing Haidian District and the urban construction and land source management department of Chengdu High-technology Zone in December and November 2020, respectively. All interviewed officers verbally confirmed that (i) the relevant departments had not imposed any administrative penalties on us in relation to the use of properties for non-industrial purposes; and (ii) under the circumstances that there are no major changes in the current effective regulatory requirements, they recognized our current use of these properties and we can continue to carry out our business operations on these parcels of land, and we will not be punished by them for the use of the land and the relevant buildings.

Based on the public information inquiries conducted by our PRC Legal Advisor on the responsibilities of the government authorities and the confirmations of the relevant government authorities themselves, our PRC Legal Advisor is of the view that (i) the planning and natural resources management department of Hangzhou Binjiang District, the planning and natural resources management department of Beijing Haidian District and the urban construction and land source management department of Chengdu High-technology Zone are competent authorities to issue or provide such confirmations in relation to the inconsistency between the actual use and approved use of these leased properties; and (ii) based on the confirmations, we can continue to use such properties for our business operations and the risks of us being punished or required to return the land and correct the use of the properties by the relevant government authorities are relatively low.

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In the event, which our Directors consider unlikely, that we are not able to continue to use the leased properties for the operations of our dealership stores, we have relocation plans in place. We consider that the leased properties, where there was inconsistency between the actual use and the approved use, can be replaced by other suitable properties in Beijing, Hangzhou and Chengdu. We anticipate the relocation costs will be immaterial. The following table sets forth details of our estimated rental costs (with reference to the market rent level of similar premises), renovation costs (including the costs for relocation) and renovation period of the affected dealership stores:

| <u>Affected Dealership Store</u> | <u>Estimated Rental Costs Per Annum</u> | <u>Estimated Renovation Costs (Showrooms and Workshops)</u> | <u>Estimated Renovation Period</u> |
|--------------------------------------|---|---|--|
| Beijing Haidian Porsche Center | RMB7.0 million | RMB36.8 million | 5 months |
| Beijing Haidian Mercedes-Benz | RMB12.4 million | RMB40.1 million | 5.5 months |
| Beijing Haidian Audi | RMB12.2 million | RMB28.0 million | 4.5 months |
| Beijing Haidian Volvo | RMB3.2 million | RMB8.0 million | 4 months |
| Hangzhou Jaguar- Land Rover | RMB3.3 million | RMB17.0 million | 4 months |
| Chengdu Airport Porsche Center | RMB1.5 million | RMB24.8 million | 6 months |

(2) *The actual site areas occupied by certain of our leased properties exceed the approved areas on the land use rights certificates*

As of the Latest Practicable Date, the properties leased by Beijing BetterLife Auto from Beijing Zhoushi exceeded the site areas on the land use rights certificate. The non-compliance occurred primarily due to the handling personnel, who is responsible for property leasing at our Group, being unfamiliar with the relevant regulatory requirements and our failure to establish detailed procedures to review and inspect the compliance status of leased properties before the commencement of operations.

Legal Consequences

As advised by our PRC Legal Advisor, according to the Land Administration law of the PRC (中華人民共和國土地管理法), occupying land without approval, the land administrative departments at and above the county level shall order to return the land illegally occupied. Persons in charge of the unit that occupies land illegally and the persons directly responsible shall be imposed on administrative penalties, and if the case constitutes a crime, criminal responsibility shall be affixed. For an occupation of land in excess of the approved amount, part in excess shall be regarded as land illegally occupied. As a result, we, as the lessee of these properties, are subject to risks of not being able to continue to use the land and properties to carry out our business operations.

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Rectification Measures Taken and Status as of the Latest Practicable Date

We conducted an interview with the planning and natural resources management department of Beijing Haidian District in December 2020. The interviewed officer verbally confirmed that (i) the department had not imposed any administrative penalties on us in relation to the use of these properties; and (ii) under the circumstances that there are no major changes in the current effective regulatory requirements, the department recognized our current use of these properties and we can continue to carry out our business operations on this parcel of land without being subject to any penalties imposed by the department for the use of this parcel of land and the relevant buildings.

Based on the public information inquiry conducted by our PRC Legal Advisor and confirmation by the government authority itself, the planning and natural resources management department of Beijing Haidian District is primarily responsible for supervision of the land and resources law enforcement within its jurisdiction. As such, our PRC Legal Advisor is of the view that (i) the planning and natural resources management department of Beijing Haidian District is the competent authority to provide such confirmations; and (ii) based on the confirmations, we can continue to use such properties for our business operations and the risks of us being punished or required to return the land and correct the use of the properties by the relevant government authorities are relatively low. We have ceased to use the expanded constructions which exceeded the site areas on the land use rights certificates since April 2021.

(3) Lack of the requisite permits and certificates for certain leased properties

As of the Latest Practicable Date, (i) for the expanded constructions that currently occupied by our 4S dealership stores in Haidian district of Beijing (items 6, 7, 11, 12, 13 and 16 in the table of our leased properties above), Beijing Zhoushi had not obtained the construction planning permit (建設工程規劃許可證) and other requisite certificates, including construction commencement permit (建設工程施工許可證), environmental protection assessment approval (環評批復) and fire control design approval (消防設計審核). These expanded constructions had not completed the required environmental protection inspection (環保驗收), fire control assessment (消防驗收) and acceptance inspection upon completion (竣工驗收) (collectively, the “Relevant Certificates”); (ii) for certain properties leased by Chengdu Xinbao to use as showrooms of Chengdu Airport Porsche Center with a total gross floor area of approximately 1,664 sq.m., the landlord had obtained the land use rights certificate but failed to obtain the requisite construction planning permit and other Relevant Certificates for these properties; and (iii) for the properties leased by Chengdu Jinbao from Chuanwu Trade, the landlord had not obtained the land use rights certificate and the requisite construction planning permit and other Relevant Certificates for the buildings on this parcel of land. The non-compliance occurred primarily due to the handling personnel, who is responsible for property leasing at our Group, being unfamiliar with the relevant regulatory requirements and our failure to establish detailed procedures to review and inspect the compliance status of leased properties before the commencement of operations.

Legal Consequences

As advised by our PRC Legal Advisor, according to the Law on Urban and Rural Planning of the PRC (中華人民共和國城鄉規劃法), failing to obtain the construction planning permit or conducting the construction work without being in compliance with the construction planning permit, (i) the relevant government authorities at or above the county level shall order the construction to stop; (ii) if rectification measures can be taken to eliminate the impact on the implementation of the plan, corrections shall be made within a time limit and a fine of no less than 5.0% but not more than 10.0% of the construction costs shall be imposed; and (iii) if rectification measures cannot be taken to eliminate the impact, the construction shall be demolished within a prescribed period of time. If the construction cannot be demolished, the illegal income shall be confiscated, and a fine of not more than 10.0% of the construction costs may be imposed. According to the aforementioned legal provisions, our PRC Legal Advisor advised us that the relevant liabilities shall be borne by the construction unit and we, as the lessee of these properties, were not subject to the legal consequences. However, we are subject to risks of not being able to continue to use the land and the relevant properties to carry out our business operations.

In addition, according to the Land Administration law of the PRC (中華人民共和國土地管理法), occupying land without approval, the land administrative departments at and above the county level shall order to return the land illegally occupied. Persons in charge of the unit that occupies land illegally and the persons directly responsible shall be imposed on administrative penalties and if the case constitutes a crime, criminal responsibility shall be affixed. For an occupation of land in excess of the approved amount, part in excess shall be regarded as land illegally occupied. As a result, we, as the lessee of these properties, are subject to risks of not being able to continue to use the land and properties to carry out our business operations.

Moreover, as advised by our PRC Legal Advisor, according to the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes Over Lease Contracts on Urban Buildings (最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋), for properties that are constructed without obtaining the requisite construction planning permit, or constructed not in accordance with the requirements of the construction planning permit, or the properties are temporary constructions that are constructed without approval, the lease agreements in relation to these properties may be deemed invalid. Therefore, there is a potential risk that the lease agreements entered into by certain of our PRC subsidiaries in respect of the expanded constructions on the parcel of land in Haidian district, Beijing, and the lease agreements entered into by Chengdu Xinbao and Chengdu Jinbao may be deemed invalid or partially invalid. Pursuant to the applicable PRC laws and regulations, our PRC Legal Advisor further advised us that, if the lease agreements in relation to the abovementioned properties that have not obtained the construction planning permit are deemed invalid or partially invalid, we may not be able to continue to use the relevant leased properties, but we have the right to claim compensation from the lessor at fault in accordance with the applicable laws and regulations and/or the default clauses of the relevant lease agreement (if such clauses are still valid and applicable).

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Rectification Measures Taken and Status as of the Latest Practicable Date

We have engaged a qualified third-party housing structure inspection institution to conduct quality inspections on the expanded constructions occupied by our 4S dealership store in Haidian district of Beijing and the properties with title defects leased by Chengdu Jinbao and Chengdu Xinbao for the operations of 4S dealership stores. The third-party housing structure inspection institution has issued a report confirming that the structure and safety of the abovementioned properties meet the requirements of national standards. We have also engaged a qualified third-party fire safety inspection institution to conduct comprehensive fire safety inspections on these properties. The third-party fire safety inspection institution has issued a report confirming that the fire protection facilities and the construction of the abovementioned properties are in compliance with the applicable national standards of fire safety.

In December 2020, we conducted an interview with the agency of Haidian District People's Government of Beijing Municipality regarding the title defects of certain expanded constructions that we leased from Beijing Zhoushi. The interviewed officer verbally confirmed that (i) the government authority had not imposed any administrative penalties on us in relation to the construction of properties; and (ii) under the circumstance that there are no major changes in the current regulatory requirements, it will not take the initiative to demolish the abovementioned expanded constructions, and we could continue to carry out our business operations on the premises. According to the Provisions of Beijing Municipality on Prohibition of Illegal Constructions (北京市禁止違法建設若干規定), the agency of local government and the government at county-level are responsible for conducting investigations and imposing penalties on any illegal construction in their respective administrative areas. Therefore, our PRC Legal Advisor is of the view that the agency of Haidian District People's Government of Beijing Municipality is competent to provide verbal confirmations on matters related to stopping and investigating the title defects of these expanded constructions. Based on the confirmations, our PRC Legal Advisor advised us that under the circumstances that there are no major changes in the current effective regulatory requirements, the risks of these expanded constructions being demolished by the relevant government authorities are relatively low. In addition, Beijing Zhoushi, the landlord of these expanded constructions, has undertaken to indemnify us against any losses arising from the title defects of these properties.

For the properties leased by Chengdu Xinbao, we conducted an interview with the reform and planning administrative department of Chengdu High-technology Zone in November 2020. The interviewed officer verbally confirmed that (i) the department had not imposed any penalties on us; (ii) the landlord is in the process of applying for the requisite permits and certificates and completing the required assessment and inspection procedures for the properties. If the application materials are complete, there are no foreseeable legal impediments in obtaining the requisite permits and certificates; and (iii) under the circumstances that there are no major changes in the current regulatory requirements, the department will not take the initiative to demolish these properties or impose any fines. Based on the public information inquiries conducted by our PRC Legal Advisor on the responsibilities of the reform and planning administrative department of Chengdu High-technology Zone and the confirmation of the authority itself, the main responsibilities of the department include

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housing planning, acceptance inspection and other related management work. Therefore, our PRC Legal Advisor is of the view that the reform and planning administrative department of Chengdu High-technology Zone is competent to provide confirmations on the matters concerning the construction of the properties leased by Chengdu Xinbao without obtaining the construction planning permit. Based on the confirmations, our PRC Legal Advisor advised us that the risks of these leased properties being demolished by the relevant government authorities are relatively low, provided that there are no major changes in the current effective regulatory requirements. In addition, the landlord of these properties has undertaken to indemnify us against any losses arising from the title defects of these properties.

For the properties leased by Chengdu Jinbao, we conducted interviews in November 2020 with the agency of Jinniu District People's Government of Chengdu Municipality and the planning and natural resources department of Chengdu Jinniu District. The interviewed officers verbally confirmed that the land currently occupied by Chengdu Jinbao was previously used as the office of the International Brand Automobile Park Management Committee of Chengdu (成都國際品牌汽車園管理委員會), which was established by the predecessor of the agency of Jinniu District People's Government of Chengdu Municipality. The land was leased to Chuanwu Trade in October 2006. Chuanwu Trade was required to construct buildings on the land and use the properties to operate an automobile sale and service center. According to the principles of autonomous operations of enterprises, the ownership of the properties on this parcel of land belongs to Chuanwu Trade, which was the constructor of these properties, and therefore, it was entitled to lease these properties to Chengdu Jinbao. The agency of Jinniu District People's Government of Chengdu Municipality also verbally confirmed that it recognized the current use of such properties and these properties could continue to be used for the business operations of 4S dealership stores.

For Chuanwu Trade commencing construction of these properties without obtaining the requisite construction planning permit, we also conducted an interview with the comprehensive administrative law enforcement department of Chengdu Jinniu District in November 2020. The interviewed officer verbally confirmed that (i) the department had not received any report or complaint in respect of Chuanwu Trade; (ii) it had not recorded any illegal activities that subject Chuanwu Trade to any penalties in the past three years and Chuanwu Trade can continue to use the land and the relevant properties; (iii) while in the process of applying for the requisite construction permits, Chuanwu Trade and any third party authorized by Chuanwu Trade, can continue to use these properties without being subject to any penalty imposed by the department; and (iv) the department will not request to demolish these properties.

Based on the public information inquiries conducted by our PRC Legal Advisor on the responsibilities of the planning and natural resources department of Chengdu Jinniu District and the confirmation of the authority itself, the main responsibilities of the department primarily include land resources management. As a result, our PRC Legal Advisor is of the view that it is competent to provide feedback and confirmations on the ownership and use of the land occupied by our Chengdu Jinniu Porsche Center. The planning and natural resources department of Chengdu Jinniu District has confirmed that the specific use of the land and building construction on such land are managed by the agency of Jinniu District People's

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Government of Chengdu Municipality. Therefore, our PRC Legal Advisor is of the view that the agency of Jinniu District People's Government of Chengdu Municipality is competent to provide feedback and confirmations on the ownership and use of the land. According to the verbal confirmations that we obtained from the planning and natural resources department of Chengdu Jinniu District and the agency of Jinniu District People's Government of Chengdu Municipality, (i) we can continue to use such properties for our business operations; and (ii) the risks of us being punished or required by the relevant government authorities to return the land and correct the usage of these properties are relatively low. In addition, based on the public information inquiries conducted by our PRC Legal Advisor on the responsibilities of the comprehensive administrative law enforcement department of Chengdu Jinniu District and the confirmation of the authority itself, the main responsibilities of the department primarily include the law enforcement work in relation to urban management, industry and commerce, environmental protection and sanitation. Therefore, our PRC Legal Advisor is of the view it is competent to provide confirmations on potential penalties in relation to properties constructed on the land without obtaining the requisite construction planning permit. The comprehensive administrative law enforcement department of Chengdu Jinniu District has confirmed that the risks of these properties occupied by Chengdu Jinniu Porsche Center being demolished by the relevant government authorities are relatively low, provided that there are no major changes in the current effective regulatory requirements.

Breach of Dealership Agreement

As advised by our PRC Legal Advisor, according to the dealership agreements entered into between our Group and the manufacturer of Porsche, our use of properties with title defects may constitute a breach of the agreements. We obtained an e-mail confirmation from the manufacturer of Porsche on March 24, 2021, which confirmed in writing that (i) for the properties occupied by our Beijing Yizhuang Porsche Center, Beijing Haidian Porsche Center, Chengdu Jinniu Porsche Center and Chengdu Airport Porsche Center, they were aware of the construction and our use of these properties at the time of establishment; (ii) they have not held us liable for the construction and use of these properties; and (iii) the dealership agreements for these dealership stores were renewed on January 1, 2021, which are valid for a term of three years. Our PRC Legal Advisor further advised us that apart from the dealership agreement with Porsche, there is no liability for breach of contract for the use of defective properties in our dealership agreements with manufacturers of other brands. During the Track Record Period and up to the Latest Practicable Date, no automobile manufacturer had refused to renew the dealership agreements with us due to the property defects of our dealership stores. Based on the above, our Directors are of the view that the title defects in our dealership stores will not have a material adverse effect to our business, financial condition and results of operations.

(4) Non-registration of lease agreements

All lease agreements we have entered into with our landlords were not registered with the relevant PRC government authorities. This occurred primarily due to the oversight of the handling personnel of our relevant departments being unfamiliar with relevant regulatory requirements and our failure to establish detailed procedures to review the registration status of our lease agreements. Our PRC Legal Advisor has advised us that, according to the applicable PRC laws and regulations, we, as the lessee, may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease agreement. However, as of the Latest Practicable Date, we had not been fined by the relevant PRC authorities with respect to these non-registered lease agreements, and our PRC Legal Advisor has advised us that the non-registration of such lease agreements would not affect their validity. As of the Latest Practicable Date, five of our lease agreements had been registered with the relevant authorities. For the rest of our lease agreements, due to the property defects described above in connection with these leased properties, we are unable to complete the registrations.

For further details on the risks associated with our leased properties, see “Risk factors — Risks Relating to Our Business — We may not be able to use certain properties leased by us due to the defects affecting our leasehold interests”.

Impact on Our Business Operations and View of Our Directors

Our Directors are of the view that the title defects of our leased properties as described above will not have any material adverse impact on our business operations due to the following reasons:

- All abovementioned confirmations that we obtained from the relevant government authorities for the defects of our leased properties had not been challenged by higher authorities as of the Latest Practicable Date. Our PRC Legal Advisor has advised us the possibility of these confirmations being challenged by higher authorities is low as all these government authorities are competent to provide confirmations for the use of our leased properties within their jurisdiction. Our PRC Legal Advisor also advised us that all the interviewed individuals of the relevant government authorities are competent persons to provide the relevant regulatory confirmations;
- As confirmed by relevant competent authorities, we have not been penalized or held liable for the title defects of our leased properties. As of the Latest Practicable Date, we had not been involved in any litigation or disputes with the manufacturer, landlord or any other third parties for our use of these properties with title defects for operations;

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- For the expanded constructions currently occupied by our 4S dealership stores in Haidian district of Beijing and the showrooms leased by Chengdu Xinbao, the landlords have undertaken to remedy us for any losses that we may suffer in connection with the title defects of these leased properties. For the properties leased by Chengdu Jinbao, as the landlord has not obtained the land use right certificate, we have a relocation plan in place if we are not able to continue to use the leased properties for the operations of our Chengdu Jinniu Porsche Center. We consider that the premises leased by Chengdu Jinbao can be replaced by other suitable properties in Chengdu and the estimated rental costs (with reference to the market rent level of similar premises) will be approximately RMB1.6 million per annum. The renovation and relocation period is expected to be approximately six months. The renovation costs (including the costs for relocation) for the new premises will be approximately RMB26.2 million. Assuming that Chengdu Jinniu Porsche Center is not able to operate for six months, we expect the losses of revenue and gross profit as a result of the relocation for Chengdu Jinniu Porsche Center will be approximately RMB565.4 million and RMB64.9 million, respectively;
- As we are generally required to submit documents in relation to our ownership or lease of properties for each new dealership stores prior to the execution of dealership agreements. We believe that the relevant automobile manufacturers were aware of the title defects before they entered into the dealership agreement with us. During the Track Record Period and up to the Latest Practicable Date, none of our dealership agreements had been terminated by any automobile manufacturer due to the title defects of the properties described above;
- We have engaged third-party inspection institutions to conduct structure quality and fire safety inspections on these leased properties that did not have the Relevant Certificates. They have issued inspection reports and confirmed that the structure quality and fire protection facilities and the construction of these properties have been in compliance with the applicable national standards; and
- Our Controlling Shareholders have agreed to indemnify us against any losses or liabilities arising from any title defects of our owned or leased properties.

Our Efforts to Ensure Future Compliance

With a view to ensuring our full compliance with property related laws and regulations in the PRC going forward, we have enhanced our internal control measures, including establishing internal compliance guidelines for our properties and a comprehensive compliance checklist setting out the detailed procedures and prerequisites that have to be completed and/or fulfilled before any construction or operation of the buildings may commence. Such procedures serve to ensure that we will obtain the relevant licenses and permits (including land use rights certificates and building ownership certificates) as required by laws and regulations and follow the requisite procedures relating to construction works and completion of buildings. With respect to leased properties, we have conducted enhanced due diligence to ensure that there are

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no title issues or legal issue before we enter into any new lease. The specific measures include, among others, (i) examining the relevant land use rights certificates and building ownership certificates of the properties; (ii) verifying such certificates with the relevant land and building administration authorities and confirming the ownership; (iii) checking with building administration authority to confirm whether any mortgage or other security is attached to the property; (iv) conducting site visits; and (v) seeking opinions, where necessary, from external legal advisors on issues in relation to compliance of property laws and regulations. We also provide our Directors, senior management and employees involved in property related matters with continuous training programs and regular updates on the relevant PRC laws and regulations to enhance their awareness.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

Legal Proceedings

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business. During the Track Record Period, we were subject to a legal proceeding for which the amount in dispute exceeded RMB1.0 million. Details of this litigation are set out below:

- In 2019, an individual, who is an Independent Third Party, initiated court proceedings in Beijing against us seeking over RMB1.0 million in damages as the automobile that he purchased from our Group caught fire while on drive. The court held that, (i) it cannot be ruled out that the fire was caused by electrical system failure of the automobile; (ii) as the automobile had an unreasonable danger to personal and property safety, there is a product quality defect; and (iii) we, as the dealer of the automobile, shall be liable for the plaintiff's damage due to the defect of the automobile. We appealed and the second instance court rendered the final judgement on April 27, 2021, which upheld the first instance judgement and ordered us to compensate the customer for a total of RMB958,400.

Except as described above, during the Track Record Period and up to the Latest Practicable Date, we were not aware of any material pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which, in the opinion of our Directors, could have a material adverse effect on our business operations or financial condition as a whole.

Non-Compliance

Social Insurance and Housing Provident Fund Contributions

According to the relevant PRC laws and regulations, we are required to make contributions to social insurance fund (including pension insurance, medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance) and housing provident fund for the benefit of our employees in China. During the Track Record Period, some of our operating entities in the PRC did not make full contribution to the social insurance and housing provident funds for some of our employees as required under PRC laws and regulations.

Reasons for Not Making Full Contributions

This non-compliance occurred primarily due to (i) our relevant management of the operation entities being unfamiliar with the relevant PRC laws and regulations; and (ii) the inconsistent implementation or interpretation of the relevant PRC laws and regulations by the responsible local authorities.

Legal Consequences and Potential Maximum Penalties

For the year ended December 31, 2018, (i) the total outstanding amount of our social insurance contribution was RMB16.1 million; and (ii) the total outstanding amount of our housing provident fund contribution was RMB7.8 million. According to the relevant PRC laws and regulations in respect of social insurance contributions, if we do not pay the full amount of social insurance contributions as required, the relevant authorities may demand us to pay the outstanding social insurance contributions by the deadline stipulated by them and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay. We may be liable to a fine from one to three times the amount of the outstanding contributions if we fail to make such payments by the deadline stipulated by them. In respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within the time period stipulated by relevant authorities. If payment is not made within such stipulated time period, relevant PRC authorities may apply to PRC courts for compulsory enforcement. For the year ended December 31, 2018, we have made provision for such shortfall in contributions to social insurance and housing provident funds of approximately RMB16.1 million and RMB7.8 million. In particular, the total contributions to the social insurance we paid as stipulated under the Notification (as defined below) was approximately RMB2.6 million, which was covered in the aforementioned provision made by us for shortfall in contributions to social insurance fund.

In April 2021, Tianjin BetterLife Auto received a notification (the “Notification”) from the branch of Tianjin Social Insurance Fund Management Center of Tianjin Port Free Trade Zone (天津市社會保險基金管理中心保稅區分中心) (the “Tianjin Social Insurance Center”) to (i) make full contributions to the social insurance fund for its employees from 2018 to 2020; and (ii) pay the outstanding amount of the contributions to the social insurance fund for the ascertained employees according to the lengths of their working years. As of May 2021, Tianjin BetterLife Auto has made full contributions to the social insurance fund according to such

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request. Other than the Notification, and to the best knowledge of our Directors, Tianjin BetterLife Auto did not receive any request from government authorities to make contributions to the social insurance fund as of the Latest Practicable Date.

On June 24, 2021, the Sole Sponsor, its PRC legal advisor and our PRC Legal Advisor conducted interviews with the Tianjin Social Insurance Center and the Tianjin Port Free Trade Zone Municipal Human Resources and Social Security Bureau (the “Tianjin Social Security Bureau”). According to the results of the interviews, (i) the Tianjin Social Insurance Center and the Tianjin Social Security Bureau did not take any initiative to investigate, request contributions of social insurance fund from or impose any administrative punishments on Tianjin BetterLife Auto; (ii) as of January 2019, Tianjin BetterLife Auto has comprehensively examined its contributions to the social insurance fund and conducted rectification; and (iii) as of May 2021, Tianjin BetterLife Auto has made full contributions to the social insurance fund and there is no historical shortfall of such contributions or any circumstance that would lead to any punishment or investigation on Tianjin BetterLife Auto. In addition, in respect of BetterLife Tianjin, according to the results of the interviews, the Tianjin Social Insurance Center and the Tianjin Social Security Bureau did not take any initiative to investigate, request contributions of social insurance fund from or impose any administrative punishment on BetterLife Tianjin, and there is no historical shortfall of the contributions to the social insurance fund or any circumstance that would lead to any punishment or investigation on it. As advised by our PRC Legal Advisor, the Tianjin Social Insurance Center and the Tianjin Social Security Bureau are the competent authorities to make the above confirmations.

During the Track Record Period, out of the 14 operating entities in the PRC which did not make full contribution to the social insurance and housing provident funds for some of our employees, five entities completed the rectification of the calculation base for the social insurance fund and/or housing provident fund in January 2019 (including Tianjin BetterLife Auto), while the remaining 9 entities completed such rectification before September 2018. Only Tianjin BetterLife Auto paid the historical amount for the contributions to the social insurance fund because:

- (i) the chance of the 9 entities that completed the rectification before September 2018 being subject to any penalties is low. According to the Law on Administrative Penalties of PRC (中華人民共和國行政處罰法), which was revised on September 1, 2017 and became effective on January 1, 2018, except as otherwise prescribed by law, where an unlawful act is not discovered within two years of its commission, an administrative penalty will not be imposed. In addition, according to the Regulation on Labor Security Supervision (勞動保障監察條例), which was promulgated on November 1, 2004 and became effective on December 1, 2004, where an act of violation against labor security laws, regulations or rules is neither found by the labor security administration nor reported or complained by others within two years, the labor security administration shall no longer investigate it. By the time we started to contemplate on the historical shortfall amount for contributions to the

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social insurance and housing provident fund in October 2020, we did not receive any notification from any government authorities which indicate that the historical shortfalls in the contributions to the social insurance fund of these 9 entities was regarded as unlawful; and

- (ii) out of the five entities which completed the rectification in January 2019, (a) Tianjin BetterLife Auto was the one with the highest total shortfall amount (approximately RMB2.6 million); (b) as part of the Corporate Reorganization, Qingdao BetterLife Sales was disposed by our Company in December 2020; and (c) the total shortfall amount of each of the other three entities was less than RMB200,000, which we considered immaterial.

Our Directors have considered the following in assessing our exposures relating to social insurance and housing provident fund contributions: (i) as of the Latest Practicable Date, except for the Notification, we had not received any notification from relevant government authorities requiring us to pay shortfalls or the penalties with respect to social insurance and housing provident funds; (ii) as of the Latest Practicable Date, except for the Notification, we had not received any notification from relevant PRC authorities alleging that we had not fully contributed to the social insurance and housing provident funds and demanding payment of the same before a stipulated deadline; (iii) during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any administrative penalties, material litigations and legal proceedings, nor were we aware of any material employee complaints or material labor disputes with our employees with respect to social insurance and housing provident funds; (iv) there is an indemnity from Mr. Chou and Chou Dynasty, our Controlling Shareholders, in favor of our Group in respect of the non-compliance; (v) for the year ended December 31, 2018, we have made provision for the shortfall in contributions to social insurance and housing provident funds of approximately RMB16.1 million and RMB7.8 million; (vi) we will make full contributions or pay any shortfall within a prescribed time period if demanded by the relevant government authorities; (vii) we have established internal control policies to ensure our ongoing compliance with the relevant laws and regulations on the contributions of the social insurance and housing provident fund; and (viii) we have been in compliance with the relevant PRC laws and regulations with respect to the contributions to the social insurance and housing provident funds since January 2019. We believe that the provisions for social insurance and housing provident fund contributions are sufficient and no further provision is required to be made, having considered the above-mentioned reasons.

Based on the foregoing and the public investigation made by our PRC Legal Advisor, our PRC Legal Advisor is of the view that the risk that we would be subject to material administrative penalties by relevant authorities in respect of the social insurance and housing provident fund is low. In light of the above, our Directors believe that our failure to fully contribute to social insurance and housing provident funds during the Track Record Period would not have any material adverse effect on our business operations or financial performance.

Remedial Measures

Since 2018, the operating entities of our Group have undertaken various rectification measures. Due to the social insurance and housing provident fund base adjustment policies in various regions, the payment base can only be adjusted and filed with relevant authorities in a designated month of a year, and as a result the operating entities of our Group were only able to fully complete the adjustment procedures for social insurance and housing provident fund payment base by January 2019. By January 2019, all of our Group's operating entities had completed such rectification. In addition, we have enhanced internal policies pursuant to which our audit department and human resource department will regularly check the compliance status of social insurance and housing provident fund contributions. We will timely rectify any non-compliance incidents.

During the Track Record Period, other than the non-compliance incidents disclosed above and under "Properties" and "Health, Work Safety, Social and Environmental Matters" in this section we did not experience any material non-compliance of the laws or regulations which taken as a whole, in the opinion of our Directors, reflects negatively on the ability or tendency of us, our Directors or our senior management, to operate in a compliant manner in all material aspects. Our PRC Legal Advisor is of the opinion that, other than the non-compliance incidents disclosed under "Properties" and "Health, Work Safety, Social and Environment Matters" in this section and the risks in association with these non-compliance incidents disclosed under "Risk Factors — Risks relating to our Business — Our non-compliance with certain laws and regulations in the PRC could lead to the imposition of administrative penalties or fines on us" and "Risk Factors — Risks relating to our Business — We may not be able to use certain properties leased by us due to the defects affecting our leasehold interests" in this prospectus, we have complied with all relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

RISK MANAGEMENT AND INTERNAL CONTROL

Internal Control

We have engaged an independent consulting firm (the "Internal Control Consultant") in January 2020 to conduct an independent review on the key internal control measures and procedures relating to, among others, revenue and collection, purchase and payment, fixed assets management, human resources, financial management, financial reporting, taxation and insurance. The Internal Control Consultant provided recommendations in relation to strengthening the internal control measures over the aforesaid major business processes to our management for consideration. We have taken the recommendations and have implemented relevant measures. The Internal Control Consultant performed a follow-up review on the rectified controls in December 2020. Having considered the report prepared by our Internal Control Consultant, our Directors confirmed that all of the major recommendations provided by the Internal Control Consultant have been followed and corrective actions were taken accordingly to address our internal control deficiencies and weakness.

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We plan to provide our Directors, senior management and employees with continuing training programs regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identifying any concerns and issues relating to any potential non-compliance. We designate personnel to be responsible for ensuring our overall on-going compliance with the relevant PRC laws and regulations that govern our business operations and overseeing the implementation of any necessary measures.

Taking into account the internal control measures implemented by us in connection with our properties disclosed in “Properties — Our Efforts to Ensure Future Compliance” in this section and the on-going monitoring and supervision by our Board with the assistance from professional external advisors where required, our Directors are of the view that (i) our enhanced internal control measures are adequate and effective; (ii) the suitability of our Directors is compliant with Listing Rules 3.08 and 3.09 of the Listing Rules; and (iii) our Company is suitable for listing under Rule 8.04 of the Listing Rules. Based on its review of the report prepared by the International Control Consultant and other due diligence documents, discussions with our Directors, the Internal Control Consultant and our PRC Legal Advisor as well as our Directors’ confirmation, the Sole Sponsor concurs with the views of our Directors.

Risk Management

Our management has designed and implemented a risk management policy to address various potential risks we have identified in relation to our operations, including strategic risks, operating risks, financial risks, and legal risks. For details of the major risks identified by our management, see “Risk Factors” in this prospectus. Our risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management and assessing and approving our risk management policy as appropriate. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, we have adopted or will adopt, among others, the following risk management and internal control measures:

- the establishment of an audit committee responsible for overseeing our financial records, internal control procedures and risk management system. See “Directors and Senior Management — Board Committees — Audit Committee” in this prospectus for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our Audit Committee;
- appointment of Maxa Capital Limited as our compliance advisor with effect from the date of the Listing to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong; and

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- the engagement of external legal advisors to advise us on compliance with the Listing Rules and to ensure our compliance with relevant regulatory requirements and applicable laws, where necessary.

In addition, we have adopted various internal regulations against corrupt and fraudulent activities, which include measures against receiving bribes and kickbacks, and misuse of company assets. The major measures and procedures to implement such regulations include, among others:

- authorizing our audit department to assume responsibility for daily execution of our anti-corruption, anti-bribery, anti-money laundering and anti-fraud measures, including handling complaints and conducting internal investigations;
- providing anti-corruption compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and including relevant policies and express prohibitions against non-compliance in employee handbooks; and
- undertaking rectification measures with respect to any identified corrupt or fraudulent activities, evaluating the identified corrupt or fraudulent activities and proposing and establishing preventative measures to avoid future non-compliance.

Our Directors are of the view that such controls and measures are sufficient and effective to avoid the occurrence of corruption, bribery, or other improper conduct of our employees. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any government investigation or litigation with respect to claims or allegations of monetary and non-monetary bribery activities.

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You should read the following discussion in conjunction with the consolidated financial statements and the notes thereto included in Appendix I to this prospectus which has been prepared in accordance with IFRS and the selected historical financial information and operating data included elsewhere in this prospectus.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future development, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in “Risk Factors”, “Business” and elsewhere in this prospectus.

OVERVIEW

We are an automobile dealership service provider in China focusing on luxury and ultra-luxury brands. We ranked sixth among all ultra-luxury brand automobile dealership service providers in China as measured by revenue generated for the year ended December 31, 2020 with a market share of approximately 4.0%, according to the Frost & Sullivan Report. As of the Latest Practicable Date, we operated 12 4S dealership stores for the brands of Porsche, Audi, Mercedes-Benz, Bentley, Volvo and Jaguar-Land Rover across six provinces and municipalities in China, including Beijing, Tianjin, Shandong, Sichuan, Zhejiang and Guangdong. According to the Frost & Sullivan Report, these six provinces and municipalities were all among the top ten provincial-level regions in China in terms of the number of high-net-worth individuals in 2020, and had shown strong purchase power and demands for luxury and ultra-luxury automobiles.

We generate revenue from a comprehensive range of automobile sales and services, including (i) the sale of automobiles; and (ii) after-sales services, which include repair and maintenance services, sale of accessories and other automobile-related products, insurance-agency services and license plate registration services.

Our revenue decreased from RMB8,409.2 million for the year ended December 31, 2018 to RMB8,178.8 million for the year ended December 31, 2019 primarily because revenue generated from our sales of automobiles decreased from RMB7,346.8 million for the year ended December 31, 2018 to RMB7,069.3 million for the year ended December 31, 2019. Our revenue increased from RMB8,178.8 million for the year ended December 31, 2019 to RMB8,533.1 million for the year ended December 31, 2020 primarily because revenue generated from our sales of automobiles increased from RMB7,069.3 million for the year ended December 31, 2019 to RMB7,462.5 million for the year ended December 31, 2020. Our net profit decreased from RMB270.2 million for the year ended December 31, 2018 to RMB224.9 million for the year ended December 31, 2019. Our net profit increased from

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RMB224.9 million for the year ended December 31, 2019 to RMB306.5 million for the year ended December 31, 2020. Our Adjusted Net Profit, which was prepared based on non-IFRS measures, increased by 3.3% from RMB218.3 million for the year ended December 31, 2018 to RMB225.5 million for the year ended December 31, 2019. Our Adjusted Net Profit, which was prepared based on non-IFRS measures, increased by 45.9% from RMB225.5 million for the year ended December 31, 2019 to RMB329.0 million for the year ended December 31, 2020.

BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Pursuant to the Corporate Reorganization, BetterLife Holding became the holding company of the companies now our Group comprises. As the Corporate Reorganization only involved inserting a new holding company on top of an existing company, the historical financial information for the Track Record Period has been presented as a continuation of the existing company by applying the principles of merger accounting. For further details of the Corporate Reorganization, see “History and Reorganization” in this prospectus.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group during the Track Record Period include the results and cash flows of all companies now our Group comprises from the earliest date presented or since the date when the subsidiaries and/or business first came under the common control of our Controlling Shareholders, where the shorter period shall prevail. The consolidated statements of financial position of our Group as of December 31, 2018, 2019 and 2020 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from our Controlling Shareholders’ perspective. No adjustments are made to reflect fair values, or to recognize any new assets or liabilities as a result of the Corporate Reorganization.

Equity interests in subsidiaries and/or businesses held by parties other than our Controlling Shareholders, and changes therein, prior to the Corporate Reorganization are presented as non-controlling interest in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation. See note 2.1 of the Accountants’ Report in Appendix I to this prospectus.

The historical financial information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from January 1, 2020, including IFRS 9 “*Financial Instruments*”, IFRS 15 “*Revenue from Contracts with Customers*”, and IFRS 16 “*Leases*”, and Amendments to IFRS 16 “*Covid-19-Related Rent Concessions*” together with the relevant transitional provisions, have been adopted by our Group in the preparation of the historical financial information throughout the Track Record Period. The financial information contained herein is presented in Renminbi.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Demand for luxury and ultra-luxury automobiles in China

During the Track Record Period, we generated the substantial majority of our revenue from the sales of automobiles. We sold a total of 14,113, 13,233 and 13,480 automobiles for the years ended December 31, 2018, 2019 and 2020, respectively. The demand for automobiles in the PRC, especially the demand for automobiles of the luxury and ultra-luxury brands we sell, directly affects the sales volume of automobiles in the PRC, upon which our business, financial condition and results of operations depend significantly.

Market demand for automobiles in general in the PRC is driven by various factors, including, among others, growth of individual wealth, continued urbanization of the Chinese population, and development of the highway network and other infrastructure in the PRC. The rapid growth of the PRC economy has led to accelerated urbanization and increased living standards and per capita disposable income, which have affected the demand for automobiles in the PRC. Furthermore, as the size of the upper-middle class has increased in the PRC, the demand for automobiles, especially for luxury and ultra-luxury brands, has also increased. According to the Frost & Sullivan Report, the sales volume of luxury and ultra-luxury passenger vehicles in China will increase at a CAGR of approximately 10.2% and 3.3% from 2020 to 2025, respectively. A significant change in the factors driving market demand for automobiles in the PRC could have a significant effect on our business and growth prospects.

Our dealership network

The growth of the sales of new automobiles and after-sales services is directly affected by the number, locations, maturity and business performance of our dealership stores. To capture the increasing demand for luxury and ultra-luxury automobiles, we have established our dealership network through organic growth and selected acquisitions. As of the Latest Practicable Date, we operated a total of 12 dealership stores.

Our ability to maintain and expand our dealership network is dependent on our ability to secure dealership agreements for desirable automobile brands and/or identify attractive acquisition on acceptable terms. We believe that our track record and established relationships with automobile manufacturers provide us with a good position from which to enter into dealership agreements with automobile manufacturers and/or negotiate purchase arrangements with potential acquisition targets, so as to support our strategy in further expanding our dealership network.

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The timing of establishing new dealership stores and our ability to minimize the ramp-up period required for newly established dealership stores could also significantly affect our financial condition and results of operations. We are usually required to incur upfront costs for establishing a new dealership store, including personnel costs, rental expenses, inventory build-up costs and renovation costs, many of which we will start to incur immediately on or before establishing a new dealership store, while turnover from a new dealership store gradually ramps up after its establishment. This could negatively affect our profit margins.

Product and service mix

Our principal business consists of the sale of automobiles and the provision of after-sales services, including repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and license plate registration services. We offer a diversified portfolio of luxury and ultra-luxury automobiles, which bear different gross profit margins. The breakdown of our sales both by type of product and by brand can have a significant effect on our results of operations, in particular our margins. As a result, our profitability and results of operations may vary significantly from period to period as a result of changes in the mix of products and services sold during the relevant period.

During the Track Record Period, we generated the substantial majority of our revenue from sales of automobiles, which accounted for 87.4%, 86.4% and 87.5% of our total revenue for the years ended December 31, 2018, 2019 and 2020, respectively. As of the Latest Practicable Date, all of our 12 dealership stores were dedicated to the sale of luxury and ultra-luxury automobiles.

Consistent with industry trends, we recorded higher gross profit margins from our after-sales services than from sales of automobiles. For the years ended December 31, 2018, 2019 and 2020, the gross profit margin of our after-sales services was 48.2%, 46.8% and 45.2%, respectively, as compared to the gross profit margin for the sale of automobiles of 4.3%, 3.7% and 5.1%, respectively for the same years. Our after-sales service business is affected by, among others, our historical sales performance of new automobiles, the number and location of our dealership stores, the length of time such dealerships have been in operation (with after-sales services increasing as a dealership and its customer base matures) and the level of customer satisfaction. We expect that the proportion of our revenue and gross profit contributed by after-sales services will continue to grow with the increasing maturity of our dealership stores and our continuing efforts in improving and enhancing the after-sales services we provide, which will positively affect our profitability and results of operations.

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Sensitivity Analysis

Sales of automobiles accounted for the majority of revenue during the Track Record Period. The following sensitivity analysis illustrates the impact of hypothetical fluctuations of the sales volume on our profit before tax during the Track Record Period, based on the assumptions that (i) the hypothetical fluctuation rates for the sales volume of automobiles were set at 5.0% and 10.0% which were derived with reference to the historical fluctuations; (ii) the gross profit margin of the sale of automobiles remained unchanged for the respective period; and (iii) all other variables held constant.

| | <u>+/-5.0%</u> |
|---|-----------------|
| | <i>RMB'000</i> |
| Increase/(decrease) in profit before tax ⁽¹⁾ | |
| Year ended December 31, 2018 | +/-15,647 |
| Year ended December 31, 2019 | +/-13,132 |
| Year ended December 31, 2020 | +/-18,979 |
| | <u>+/-10.0%</u> |
| | <i>RMB'000</i> |
| Increase/(decrease) in profit before tax ⁽¹⁾ | |
| Year ended December 31, 2018 | +/-31,295 |
| Year ended December 31, 2019 | +/-26,264 |
| Year ended December 31, 2020 | +/-37,958 |

Note:

- (1) Our profit before tax was approximately RMB427.0 million, RMB330.2 million and RMB420.2 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Incentive rebates from automobile manufacturers

Our gross profit is materially affected in part by the incentive rebates that automobile manufacturers provide. These rebates are generally determined with reference to a number of factors, including the number of new automobiles we purchase and sell, customer satisfaction and other performance indicators as set by automobile manufacturers depending on their policies. For the years ended December 31, 2018, 2019 and 2020, we recorded rebates of approximately RMB392.3 million, RMB351.4 million and RMB472.9 million, respectively, representing approximately 5.3%, 5.0% and 6.3% of revenue from the sale of automobiles for the same years, respectively. The fluctuation in rebates as a percentage of revenue from the sale of automobiles during the Track Record Period was generally in line with the changes of sales volume in the respective periods. Incentive rebates relating to automobiles purchased and sold are deducted from cost of sales, while rebates relating to automobiles purchased but remained

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unsold as of December 31, 2018, 2019 and 2020 are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates. As a result, our results of operations and business are materially affected by the incentive rebates we obtain from automobile manufacturers.

Finance costs

We finance our purchase of automobiles in part by borrowings. We have obtained bank loans from domestic commercial banks to finance our working capital and network expansion needs. We have also obtained other borrowings from automobile manufacturers' designated finance companies to finance our inventories. Accordingly, our finance costs primarily consist of interest expenses borne by our Group representing interest charged on loans and other borrowings. Our finance costs arising from borrowings are determined by the amount of bank loans and other borrowings maintained in the relevant periods and the applicable interest rates on such loans and borrowings. We obtain a combination of short term and long term, as well as fixed rate and variable rate, bank loans and other borrowings, in order to control our finance costs and exposure to changes in interest rates. Changes in our financing needs for purchasing automobiles from automobile manufacturers or other purposes, as well as changes in prevailing interest rates as a result of an adjustment by the PBOC in its benchmark lending rates or otherwise, could result in significant changes in our finance costs. For the years ended December 31, 2018, 2019 and 2020, our finance costs were RMB83.5 million, RMB56.2 million and RMB41.1 million, respectively, representing approximately 1.0%, 0.7% and 0.5% of total revenue, respectively, for the same years. Such decrease in our finance costs was primarily attributable to the decrease of our bank loans and other borrowings.

CRITICAL ACCOUNTING POLICIES, JUDGMENT AND ESTIMATES

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our financial position and operating results. Some of the accounting policies require us to apply estimates and judgments on matters that are inherently uncertain. Set forth below are discussions of the accounting policies applied in preparing our financial information that we believe are most dependent on the application of these estimates and judgments and, in addition, certain other accounting policies that we believe are material to an understanding of our financial information. For details of these critical accounting policies, judgments and estimates, and other significant accounting policies, judgments and estimates we applied in preparing our financial information, see notes 2.4 and 3 to the Accountants' Report set out in Appendix I to this prospectus.

Revenue Recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

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When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which our Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sales of automobiles, spare parts, accessories and other automobile-related products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Rendering of services

For the rendering of services, the control is transferred overtime and therefore, the performance obligation is satisfied and revenue is recognized over time, if one of the following criteria is met:

- i. the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- ii. the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- iii. the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct goods or service.

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Other Income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive payment has been established. It is probable that the economic benefits associated with the dividend will flow to our Group and the amount of the dividend can be measured reliably.

Commission income is recognized at a point in time when the services are fully rendered and accepted by customers.

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

Contract Liabilities

A contract liability is recognized when a payment is received or a payment is due, whichever is earlier, from a customer before we transfer the related goods or services. Contract liabilities are recognized as revenue when we transfer control of the related goods or services to the customer pursuant to the contract.

Vendor Rebates

Volume-related vendor rebates are recognized as a deduction from cost of sales on an accrual basis based on the expected entitlement earned up to the end of each year for each relevant supplier contract.

Rebates relating to items purchased but still held at the end of each year are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each year, taking into consideration interpretations and practices prevailing in the countries in which we operate.

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Deferred tax is provided, using the liability method, on all temporary differences at the end of each year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred Tax Assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 2.4 in Appendix I to this prospectus.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of our Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. We perform our annual impairment test of goodwill as of December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of our Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

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Goodwill acquired through business combinations has been allocated to the relevant 4S dealership business (or group of 4S dealership business) from which the goodwill resulted. The 4S dealership business is treated as a cash-generating unit (“CGU”) for impairment testing.

The carrying amount of goodwill allocated to the CGU of the operation of 4S dealership business is as follows:

| | As at December 31, | | |
|------------------------|--------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 4S dealership business | <u>199,715</u> | <u>199,715</u> | <u>210,396</u> |

The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by our Company.

The following describes the key assumptions of the cash flow projections.

Revenue from the sale and service of motor vehicles – the bases used to determine the future earnings of sale and service of motor vehicles are the historical sales and the average growth rate of similar 4S stores of our Group over the past years. The range of annual revenue growth rate within the five-year period as of December 31, 2018, 2019 and 2020 is primarily from -3.34% to 12.77%. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from December 31, 2018, 2019 and 2020 is 3%.

Operating expenses – the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumptions reflect past experience and management’s commitment to maintain its operating expenses at an acceptable level.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit. The discount rates applied to the cash flow projections beyond the one-year period are 16.89%, 16.91% and 16.75% to 18.03% as of December 31, 2018, 2019 and 2020, respectively.

The values assigned to key assumptions on revenue from the sale and service of motor vehicles, operating expenses and discount rates are consistent with external information sources.

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Details of the headroom measured by excess of the recoverable amounts over the carrying amounts of the CGU as of December 31, 2018, 2019 and 2020 are set out as follows:

| | As at December 31, | | |
|------------------------|---------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 4S dealership business | 254,029 | 261,404 | 527,431 |

Our Company has undertaken a sensitivity analysis on the impairment test of goodwill. The following table sets forth the hypothetical changes to discount rate or annual revenue that would, in isolation, have removed the remaining headroom as of December 31, 2018, 2019 and 2020 are set out as follows:

| | As at December 31, | | |
|----------------------------|---------------------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| | Increase in discount rate | 2.13% | 2.37% |
| Annual revenue decrease by | 4.85% | 5.61% | 8.88% |

As of December 31, 2018, 2019 and 2020, our Directors considered no reasonably possible change in the key assumptions mentioned above would cause the carrying amounts of the CGU to exceed their recoverable amounts.

Our Directors determined that there was no impairment of its CGU as of December 31, 2018, 2019 and 2020.

Intangible Assets (Other Than Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

| Categories | Estimated useful lives |
|----------------------|-------------------------------|
| Software | 10 years |
| Dealership | 30 years |

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The software mainly represents the ERP system adopted by our Group, which consists of various modules for the management of automobiles sales and after-sales services. The ERP system is the mainstream large-scale software in the market. Our management estimates that the useful life of the ERP system is 10 years. As our Group completed the roll-out of the ERP system in 2016, we estimate that we are able to continue to use the ERP system for at least five years from 2021. In addition, we estimate that the amortization period of dealership is 30 years primarily because (i) all of our existing dealership stores are luxury or ultra-luxury brands with high brand value, which are expected to have longer useful lives than medium-end or entry-level brands; (ii) we have established stable cooperation with the automobile manufacturers and we believe that we are able to maintain the dealership authorization to continue to operate the dealership stores going forward; and (iii) the useful lives of dealership generally range between 20 and 40 years in the automobile dealership industry and our estimation falls within the industry range.

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment that have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the year in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

| Categories | Estimated Useful Lives |
|----------------------------------|---|
| Buildings | 20 years |
| Leasehold improvements | Over the shorter of the lease terms and 5 years |
| Machinery equipment. | 10 years |
| Vehicles | 5 years |
| Other equipment | 5 years |

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Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed and adjusted as appropriate at the end of each year.

An item of property, plant and equipment, including any significant part initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year that the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the construction period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Impairment of Financial Assets

We recognize an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There are two approaches, the general approach and the simplified approach, for the calculation of ECLs. See “Impairment of financial assets” in note 2.4 in the Accountants’ Report in Appendix I to this prospectus.

At the end of each year, our Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, our Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Provision for Inventories

We review the carrying amounts of inventories at the end of each year to determine whether the inventories are carried at lower of cost and net realizable value. The net realizable value is estimated based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories written-down or the related reversals of write-down and affect our financial position.

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RESULTS OF OPERATIONS

The table below sets forth a summary of our consolidated statements of profit or loss for the years indicated:

| | Year Ended December 31, | | |
|---|-------------------------|-----------------------|-----------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 8,409,178 | 8,178,781 | 8,533,130 |
| Cost of sales | <u>(7,583,982)</u> | <u>(7,396,583)</u> | <u>(7,669,517)</u> |
| Gross profit | 825,196 | 782,198 | 863,613 |
| Other income and gains | 232,896 | 140,271 | 168,481 |
| Selling and distribution expenses | (344,339) | (365,623) | (360,536) |
| Administrative expenses | (191,196) | (153,222) | (192,394) |
| Other expenses | (12,050) | (17,178) | (17,898) |
| Finance costs | <u>(83,549)</u> | <u>(56,242)</u> | <u>(41,054)</u> |
| Profit before tax | 426,958 | 330,204 | 420,212 |
| Income tax expense | <u>(156,775)</u> | <u>(105,316)</u> | <u>(113,721)</u> |
| Profit for the year | <u>270,183</u> | <u>224,888</u> | <u>306,491</u> |
| Attributable to: | | | |
| Owners of the parent | 206,951 | 159,857 | 234,984 |
| Non-controlling interests | <u>63,232</u> | <u>65,031</u> | <u>71,507</u> |
| | <u>270,183</u> | <u>224,888</u> | <u>306,491</u> |
| Non-IFRS Measures: | | | |
| Adjusted Net Profit for the year | <u>218,324</u> | <u>225,477</u> | <u>329,049</u> |

Non-IFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use the Adjusted Net Profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of certain items that we do not consider indicative of the performance of our business. We also believe that this non-IFRS measure provides additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies.

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The following table sets forth the reconciliations of the Adjusted Net Profit to the most directly comparable financial measure calculated and presented in accordance with IFRS, namely profit for the year.

| | Year Ended December 31, | | |
|---|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit for the year | 270,183 | 224,888 | 306,491 |
| Listing expenses | 3,750 | 589 | 22,558 |
| Tax expenses in relation to the Corporate | | | |
| Reorganization | 30,562 | – | – |
| Land compensation | | | |
| from lawsuit | (114,895) | – | – |
| Tax effect from adjustments | 28,724 | – | – |
| Adjusted Net Profit for the year | <u>218,324</u> | <u>225,477</u> | <u>329,049</u> |

Adjusted Net Profit, which was prepared based on non-IFRS measures, for the year is derived by (i) adding back the listing expenses and tax expenses in relation to the Corporate Reorganization that we incurred during the Track Record Period. Such tax expenses resulted from the two equity transfer transactions as disclosed in “History and Reorganization — Corporate Reorganization — 4. Disposal of Tianjin Guomao” in this prospectus; and (ii) excluding the compensation we received in 2018 in connection with a lawsuit relating to the land use rights of certain of our properties in Beijing and tax effect from such adjustments to profit for the year ended December 31, 2018, 2019 and 2020. For the year ended December 31, 2018, the one-off compensation of RMB114.9 million was recognized as other income in our consolidated statements of profit or loss, and was subject to the PRC enterprise income tax at a rate of 25.0%. The tax effect from adjustments of RMB28.7 million primarily represented the income tax attributable to such compensation. Adjusted Net Profit for the year is not prepared in accordance with IFRS. The amounts included in the Adjusted Net Profit for the year calculation, however, are derived from amounts included in the consolidated statements of profit or loss. We have presented Adjusted Net Profit for the year in this prospectus as we believe that it is a useful supplement to the consolidated statements of profit or loss because it enables us to measure our profitability without taking into consideration certain one-off or non-recurring items, including listing expenses and land compensation we received in 2018. However, Adjusted Net Profit for the year should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with IFRS, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the Adjusted Net Profit for the year measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation. The use of the Adjusted Net Profit has material limitations as an analyzed tool, as it does not include all items that impact our profit for the relevant year.

The tax expenses in relation to the Corporate Reorganization resulted from the two equity transfer transactions as disclosed in “History and Reorganization — Corporate Reorganization — 4. Disposal of Tianjin Guomao” in this prospectus. As such transactions were not related to the recurring restructuring charges or frequent business acquisitions, our Directors are of the view that these tax expenses of RMB30.6 million were non-recurring in nature and shall be regarded as an adjustment.

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MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we generated revenue primarily from (i) sales of automobiles and (ii) after-sales services, including repair and maintenance services, sales of accessories and other automobile-related products, insurance agency services and license plate registration services. For the years ended December 31, 2018, 2019 and 2020, our total revenue was RMB8,409.2 million, RMB8,178.8 million and RMB8,533.1 million, respectively. During the Track Record Period, all of our revenue was derived from the PRC.

The table below sets forth the breakdown of our revenue by business segment for the years indicated:

| | Year Ended December 31, | | | | | |
|--|-------------------------|--------------|------------------|--------------|------------------|--------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Sale of automobiles | 7,346,750 | 87.4 | 7,069,342 | 86.4 | 7,462,455 | 87.5 |
| After-sales services | | | | | | |
| Repair and maintenance | 799,526 | 9.5 | 876,195 | 10.7 | 802,676 | 9.4 |
| Sale of accessories and other automobile-related products | 192,417 | 2.3 | 191,701 | 2.3 | 227,597 | 2.7 |
| Insurance agency services | 50,213 | 0.6 | 23,357 | 0.3 | 21,821 | 0.3 |
| License plate registration services . . | 20,272 | 0.2 | 18,186 | 0.2 | 18,581 | 0.2 |
| Subtotal | 1,062,428 | 12.6 | 1,109,439 | 13.6 | 1,070,675 | 12.5 |
| Total | 8,409,178 | 100.0 | 8,178,781 | 100.0 | 8,533,130 | 100.0 |

Sale of automobiles

We generated a substantial portion of revenue from sales of automobiles during the Track Record Period, which accounted for approximately 87.4%, 86.4% and 87.5% of our revenue for the years ended December 31, 2018, 2019 and 2020, respectively.

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The following table sets forth a breakdown of revenue, sales volume and average retail price of automobiles that we sold by brand for the years indicated:

| | Year Ended December 31, | | | | | | | | |
|--------------------------------|-------------------------|---------------|-------------------------------------|------------------|---------------|-------------------------------------|------------------|---------------|-------------------------------------|
| | 2018 | | | 2019 | | | 2020 | | |
| | Revenue | Sales Volume | Average retail price ⁽¹⁾ | Revenue | Sales Volume | Average retail price ⁽¹⁾ | Revenue | Sales Volume | Average retail price ⁽¹⁾ |
| | RMB'000 | Unit | RMB'000 | RMB'000 | Unit | RMB'000 | RMB'000 | Unit | RMB'000 |
| Ultra-luxury brands | | | | | | | | | |
| Porsche | 4,043,752 | 5,278 | 766 | 4,067,065 | 5,453 | 746 | 4,034,850 | 5,139 | 785 |
| Bentley | 59,666 | 26 | 2,295 | 61,932 | 24 | 2,581 | 80,657 | 30 | 2,689 |
| Luxury brands | | | | | | | | | |
| Mercedes-Benz | 1,691,542 | 3,496 | 484 | 1,596,376 | 3,270 | 488 | 1,514,846 | 3,100 | 489 |
| Audi | 1,255,196 | 4,309 | 291 | 1,005,894 | 3,481 | 289 | 994,369 | 3,089 | 322 |
| Volvo | 502 | 2 | 251 | 120,294 | 409 | 294 | 319,942 | 1,108 | 289 |
| Jaguar-Land Rover | - | - | - | 7,617 | 15 | 508 | 399,605 | 760 | 526 |
| Medium-level brand | | | | | | | | | |
| Imported Volkswagen | 296,092 | 1,002 | 296 | 209,420 | 573 | 365 | 116,951 | 242 | 483 |
| Entry-level brand | | | | | | | | | |
| JAC Volkswagen-Sihao | - | - | - | 744 | 8 | 93 | 1,235 | 12 | 103 |
| Total | 7,346,750 | 14,113 | 520.6 | 7,069,342 | 13,233 | 534.2 | 7,462,455 | 13,480 | 553.6 |

Note:

- (1) The average retail price of automobiles under a particular brand is calculated on the basis of revenue attributable to automobiles under the brand for the year divided by sales volume of that brand for the same year.

Our revenue from sales of automobiles decreased by 3.8% from RMB7,346.8 million for the year ended December 31, 2018 to RMB7,069.3 million for the year ended December 31, 2019, primarily due to the decrease in the sales volume of automobiles as a result of transition of automobile models to fulfill the new requirements of the China Six Standard which have been implemented in Zhejiang, Sichuan, Guangdong and Shandong provinces and Tianjin since July 1, 2019, and in Beijing since January 1, 2020. As advised by our PRC Legal Advisor, after the implementation of the China Six Standard, the production and import of light-duty vehicles that only satisfy the China Five Standard are prohibited in China. A transition period, which is six months for Sichuan and three months for Beijing, Tianjin, Guangdong, Shandong and Zhejiang after the implementation of the China Six Standard, has been granted by the local governments. During the transition period, application for registration of vehicles that satisfy the China Five Standard was still accepted by the local government authorities. However, the implementation of the China Six Standard, which has set more stringent emission requirements for light-duty vehicles, has resulted in a transition between automobile models. This transition between models had a significant negative impact on the automobile sales performance of our dealership stores in 2019 as consumers were inclined to hold off purchase decisions until the transition was completed. We adopted a conservative approach when purchasing our inventory for 2019 because automobiles manufactured under the old emission requirements had to be all

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sold off before the end of 2019 before the new requirements took effect. These old model automobiles were often sold at reduced prices due to the scheduled transition. As our manufacturers just transitioned to models of automobiles that meet the new emission requirements as well, for a while the supplies of these new model automobiles available to us were limited in 2019. In addition, according to the Frost & Sullivan Report, as the China Six Standard was different from the emission standard set by the European Union, some of the imported automobile models that did not comply with China's emission standard were not allowed to enter China's market, which had led to a decrease in the volume of imported automobiles in China during the year of 2019. Meanwhile, automobile manufacturers are relatively more willing to supply the new automobiles, which comply with the emission requirements in China, to the dealers in areas where such new emission standard has been implemented. All of these factors contributed to the decrease in our sales for 2019 compared with 2018. Our revenue from sales of automobiles increased by 5.6% from RMB7,069.3 million for the year ended December 31, 2019 to RMB7,462.5 million for the year ended December 31, 2020 as result of the ramp-up in the operation scale of our 4S dealership stores for Volvo and Jaguar-Land Rover and the launch of new models of Bentley in 2019, which stimulated the sales performance in 2020. Our revenue generated from sales of automobiles of luxury and ultra-luxury brands represented 96.0%, 97.0% and 98.4% of our total revenue from the sales of automobiles, for the years ended December 31, 2018, 2019 and 2020, respectively.

Porsche

For the years ended December 31, 2018, 2019 and 2020, our revenue from sales of Porsche was RMB4,043.8 million, RMB4,067.1 million and RMB4,034.9 million, respectively, which accounted for 55.0%, 57.5% and 54.1% of our revenue from the sales of automobiles for the same years, respectively. Our revenue from sales of Porsche remained relatively stable during the Track Record Period.

Bentley

Our revenue generated from sales of Bentley was RMB59.7 million and RMB61.9 million for the year ended December 31, 2018 and 2019, respectively, which remained relatively stable. Our revenue generated from sales of Bentley increased by 30.2% from RMB61.9 million for the year ended December 31, 2019 to RMB80.7 million for the year ended December 31, 2020, primarily due to the launch of new models in 2019, which stimulated the sales performance in 2020.

Mercedes-Benz

Our revenue generated from sales of Mercedes-Benz decreased by 5.6% from RMB1,691.5 million for the year ended December 31, 2018 to RMB1,596.4 million for the year ended December 31, 2019 primarily due to the decrease in the sales volume in 2019 as a result of transition of automobile models to fulfill new requirements of the China Six Standard, which has been implemented in Beijing since January 1, 2020. Our revenue generated from sales of Mercedes-Benz decreased by 5.1% from RMB1,596.4 million for the year ended December 31, 2019 to RMB1,514.8 million for the year ended December 31, 2020, mainly due to the decrease in the sales volume as a result of the COVID-19 pandemic.

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Audi

Our revenue generated from sales of Audi decreased by 19.9% from RMB1,255.2 million for the year ended December 31, 2018 to RMB1,005.9 million for the year ended December 31, 2019 mainly due to the decrease in sales volume in 2019 as a result of transition of automobile models to fulfill new requirements of the China Six Standard which has been implemented in Beijing since January 1, 2020. Our revenue generated from sales of Audi decreased by 1.1% from RMB1,005.9 million for the year ended December 31, 2019 to RMB994.4 million for the year ended December 31, 2020, primarily due to the decrease in the sales volume as a result of the COVID-19 pandemic.

Volvo

We commenced to operate a 4S dealership store for Volvo in December 2018. Our revenue generated from sales of Volvo was RMB0.5 million and RMB120.3 million for the years ended December 31, 2018 and 2019, respectively. Our revenue generated from sales of Volvo increased by 166.0% from RMB120.3 million for the year ended December 31, 2019 to RMB319.9 million for the year ended December 31, 2020, primarily due to the ramp-up in the operation scale during the second year of operation of our 4S dealership store for Volvo.

Jaguar-Land Rover

We commenced the operation of a 4S dealership store in Hangzhou, Zhejiang province for Jaguar-Land Rover in December 2019. Our revenue generated from sales of Jaguar-Land Rover was RMB7.6 million for the year ended December 31, 2019. Our revenue generated from the sales of Jaguar-Land Rover was RMB399.6 million for the year ended December 31, 2020, primarily due to the ramp-up in the operation scale during the period.

Imported Volkswagen

Our revenue generated from sales of imported Volkswagen decreased by 29.3% from RMB296.1 million for the year ended December 31, 2018 to RMB209.4 million for the year ended December 31, 2019 primarily due to the decrease in the saleable automobile models. Shandong province began to implement the China Six Standard since July 1, 2019. Except for Touareg (途锐), which met such emission standard, all other imported Volkswagen models only met the China Five Standard and therefore, were not qualified for sale. Our revenue generated from sales of imported Volkswagen decreased by 44.2% from RMB209.4 million for the year ended December 31, 2019 to RMB117.0 million for the year ended December 31, 2020, primarily because the sales volume decreased, as a result of COVID-19 pandemic, and there was only one automobile model of imported Volkswagen, Touareg (途锐), that fulfilled the regulated emission standard and was qualified for sale in 2020. We disposed of all of our dealership stores for imported Volkswagen by the end of 2020 as a result of our strategy to focus our operations on luxury and ultra-luxury brands.

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JAC Volkswagen-Sihao

We opened two 4S dealership stores in Beijing and Qingdao for JAC Volkswagen-Sihao to sell new energy automobiles under the brand of “Sihao” in September 2019. Our revenue generated from sales of JAC Volkswagen-Sihao was RMB0.7 million for the year ended December 31, 2019. Our revenue generated from the sale of JAC Volkswagen-Sihao was RMB1.2 million for the year ended December 31, 2020. Due to the impact of the COVID-19 pandemic and because the financial performance of this brand did not meet our expectations and our strategy to focus our operations on luxury and ultra-luxury brands, the 4S dealership stores in Beijing and Qingdao for JAC Volkswagen-Sihao were closed in September 2020.

After-sales Services

Repair and Maintenance

Our revenue from repair and maintenance services increased by 9.6% from RMB799.5 million for the year ended December 31, 2018 to RMB876.2 million for the year ended December 31, 2019, primarily due to the increase in the average value of each after-sales transaction. Our revenue from repair and maintenance services decreased by 8.4% from RMB876.2 million for the year ended December 31, 2019 to RMB802.7 million for the year ended December 31, 2020, primarily as a result of the COVID-19 outbreak. Following the outbreak of COVID-19, during the Chinese New Year’s holidays at the end of January 2020, the government extended the public holiday period during which businesses remained closed. For the remainder of February and March 2020, we implemented staggered work shifts and only had part of our staff on duty during work hours. In the meanwhile, residents in Beijing as well as most other parts of China reduced non-essential activities as a result of COVID-19 concerns and postponed repair and maintenance services for their automobiles, resulting in a decrease in throughput volume of our after-sales services.

Sale of Accessories and Other Automobile-related Products

Our revenue from the sale of accessories and other automobile-related products decreased slightly by 0.4% from RMB192.4 million for the year ended December 31, 2018 to RMB191.7 million for the year ended December 31, 2019, primarily due to the decrease in the total sales volume of automobiles. Our revenue from the sale of accessories and other automobile-related products increased by 18.7% from RMB191.7 million for the year ended December 31, 2019 to RMB227.6 million for the year ended December 31, 2020, primarily because we offered discounts or promotions to increase the sale of accessories and other automobile-related products.

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Insurance Agency Services

Our revenue from insurance agency services decreased by 53.5% from RMB50.2 million for the year ended December 31, 2018 to RMB23.4 million for the year ended December 31, 2019 and further decreased by 6.6% from RMB23.4 million for the year ended December 31, 2019 to RMB21.8 million for the year ended December 31, 2020, primarily due to the decrease in maximum commission rates of automobile insurance imposed by the leading insurance companies.

License Plate Registration Services

We provide license plate registration services to customers when they purchase automobiles from our 4S dealership stores. Our revenue generated from the license plate registration services decreased from RMB20.3 million for the year ended December 31, 2018 to RMB18.2 million for the year ended December 31, 2019 primarily due to the decrease in the sales volume of new automobiles. Our revenue generated from the license plate registration services was RMB18.6 million for the year ended December 31, 2020, which remained relatively stable.

Cost of Sales

Our cost of sales primarily consists of (i) costs of procuring automobiles from automobile manufacturers; and (ii) costs in connection with our after-sales services, which primarily represent (a) the costs of procuring spare parts, the labor costs incurred in providing repair and maintenance services and depreciation expenses of our repair and maintenance equipment; (b) costs of procuring other accessories and automobile-related products that we sell at our 4S dealership stores; (c) costs in connection with our insurance agency services; and (d) costs relating to our license plate registration services.

The table below sets forth the breakdown of our cost of sales by revenue source for the years indicated:

| | Year Ended December 31, | | | | | |
|--|-------------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Sales of automobiles | 7,033,802 | 92.7 | 6,806,704 | 92.0 | 7,082,878 | 92.4 |
| After-sales services | | | | | | |
| Repair and maintenance | 448,563 | 5.9 | 483,689 | 6.5 | 434,646 | 5.7 |
| Sales of accessories and automobile-related products | 89,674 | 1.2 | 89,802 | 1.2 | 129,849 | 1.7 |
| Insurance agency services | 7,513 | 0.1 | 12,614 | 0.2 | 17,193 | 0.2 |
| License plate registration services | 4,430 | 0.1 | 3,774 | 0.1 | 4,951 | 0.1 |
| Subtotal | 550,180 | 7.3 | 589,879 | 8.0 | 586,639 | 7.6 |
| Total | <u>7,583,982</u> | <u>100.0</u> | <u>7,396,583</u> | <u>100.0</u> | <u>7,669,517</u> | <u>100.0</u> |

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The table below sets forth the breakdown of our costs sales by cost component for the years indicated:

| | Year Ended December 31, | | |
|--|--------------------------------|------------------|------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Costs of automobiles | 7,291,219 | 7,072,745 | 7,440,997 |
| Costs of spare parts, accessories and other automobile-relates products | 505,294 | 558,484 | 555,227 |
| Promotion costs | 114,676 | 93,276 | 108,799 |
| Staff costs | 44,570 | 46,341 | 36,347 |
| Others | 1,815 | 473 | 251 |
| Rebates | (373,592) | (374,736) | (472,104) |
| Total | 7,583,982 | 7,396,583 | 7,669,517 |

Our costs of purchasing automobiles are materially affected by the rebates granted to us by automobile manufacturers. Our automobile manufacturers often provide us with volume-based rebates, which are decided with reference to certain criteria set by the relevant automobile manufacturers, including procurement and sales volume. The automobile manufacturers settle the rebates with us from time to time taking into account the above factors by cash or deducting the price payable by us in the subsequent purchases placed by us. Rebates, based on either procurement or sales volume, are recognized as receivables with a corresponding reduction to the cost of sales in the month during which the related automobiles are sold. For procurement-based rebates, they are recognized as receivables with a corresponding reduction to the book value of the related automobile inventory, which will be transferred to, and recognized as, cost of sales in the month in which the related inventory is sold. We usually estimate the rebates to be accrued based on the manufacturers' rebate policies and their assessment criteria prior to the confirmation of the relevant automobile manufacturer. Then, we declare the rebates in the rebate system of the corresponding manufacturer based on the actual procurement and/or sales volume. The estimated rebates are recorded at the end of each month. The manufacturer will review the rebates declared by us and settle the amount with us upon confirmation. During the Track Record Period, we did not experience any significant discrepancy between the amount of rebates estimated by our Group and the amount received from automobile manufacturers.

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The difference between the amounts of such rebates recorded in the profit and loss and the incentive rebates that automobile manufacturers provided, which is disclosed in “Key Factors Affecting Our Results of Operations — Incentive rebates from automobile manufacturers” in this section, mainly arises from the net impact of the rebates for the unsold inventories at the end of each financial year and the rebates for the sold inventories at the beginning of the financial years. A reconciliation of the amount set off in cost of sales for rebates to the amount of rebates recorded by our Group is as follows:

| | 2018 | 2019 | 2020 |
|--|----------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The amount of rebates recorded by the Group | 392,289 | 351,367 | 472,861 |
| The amount set off in cost of sales regarding the beginning inventory sold in the current year | 14,206 | 32,903 | 9,534 |
| A reduction to the book value of the ending inventory other than cost of sales | (32,903) | (9,534) | (10,291) |
| The amount set off in cost of sales for rebates | 373,592 | 374,736 | 472,104 |

Gross Profit and Gross Profit Margin

For the years ended December 31, 2018, 2019 and 2020, our gross profit was RMB825.2 million, RMB782.2 million and RMB863.6 million, respectively, and the corresponding gross profit margins were 9.8%, 9.6% and 10.1%, respectively. During the Track Record Period, we derived the majority of our gross profit from after-sales services.

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The table below sets forth the breakdown of our gross profit and gross profit margin by business segment for the years indicated:

| | Year Ended December 31, | | | | | |
|--|-------------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Sales of automobiles | 312,948 | 4.3 | 262,638 | 3.7 | 379,577 | 5.1 |
| After-sales services | | | | | | |
| Repair and maintenance ⁽¹⁾ | 350,963 | 43.9 | 392,506 | 44.8 | 368,030 | 45.9 |
| Sales of accessories and automobile- related products | 102,743 | 53.4 | 101,899 | 53.2 | 97,748 | 42.9 |
| Insurance agency services | 42,700 | 85.0 | 10,743 | 46.0 | 4,628 | 21.2 |
| License plate registration services | 15,842 | 78.1 | 14,412 | 79.2 | 13,630 | 73.4 |
| Subtotal | 512,248 | 48.2 | 519,560 | 46.8 | 484,036 | 45.2 |
| Total | 825,196 | 9.8 | 782,198 | 9.6 | 863,613 | 10.1 |

Note:

(1) For the years ended December 31, 2018, 2019 and 2020, gross profit generated from in-warranty repair services was RMB18.6 million, RMB25.6 million and RMB37.3 million, respectively. For the same years, gross profit generated from out-of-warranty repair services was RMB332.3 million, RMB366.9 million and RMB330.7 million, respectively.

The table below sets forth the breakdown of gross profit and gross profit margin from in-warranty and out-of-warranty repair services for the years indicated:

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| In-warranty repair services | 18,628 | 27.4 | 25,586 | 31.0 | 37,320 | 32.3 |
| Out-of-warranty repair services | 332,335 | 45.4 | 366,920 | 46.2 | 330,710 | 48.1 |
| Total | 350,963 | 43.9 | 392,506 | 44.8 | 368,030 | 45.9 |

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The following table sets forth a breakdown of our gross profit and gross profit margin in relation to the sale of automobiles by brand for the years indicated:

| | Year Ended December 31, | | | | | |
|--------------------------------|-------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|
| | 2018 | | 2019 | | 2020 | |
| | Gross | Gross | Gross | Gross | Gross | Gross |
| | Profit | Profit | Profit | Profit | Profit | Profit |
| | Margin | Margin | Margin | Margin | Margin | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Ultra-luxury brands | | | | | | |
| Porsche | 318,075 | 7.9 | 229,634 | 5.6 | 260,248 | 6.5 |
| Bentley | 168 | 0.3 | 5,868 | 9.5 | 8,292 | 10.3 |
| Luxury brands | | | | | | |
| Mercedes-Benz | 51,731 | 3.1 | 72,376 | 4.5 | 92,666 | 6.1 |
| Audi | (50,256) | (4.0) | (35,691) | (3.5) | (359) | - |
| Volvo | 173 | 34.5 | (7,682) | (6.4) | 19,344 | 6.0 |
| Jaguar-Land Rover | - | - | (257) | (3.4) | (5,221) | (1.3) |
| Medium-level brand | | | | | | |
| Imported Volkswagen | (6,943) | (2.3) | (1,672) | (0.8) | 4,425 | 3.8 |
| Entry-level brand | | | | | | |
| JAC Volkswagen-Sihao | - | - | 62 | 8.3 | 182 | 14.7 |
| Total | <u>312,948</u> | <u>4.3</u> | <u>262,638</u> | <u>3.7</u> | <u>379,577</u> | <u>5.1</u> |

During the Track Record Period, we recorded gross losses from the sale of certain brands of new automobiles, which mainly resulted from the lower incentive rebates received and the reduction of selling price in order to reduce inventory of certain models whose new or upgraded models had been introduced in order to be in compliance with the China Six Standard. Gross losses attributable to the sale of Audi decreased from RMB50.3 million for the year ended December 31, 2018 to RMB35.7 million for the year ended December 31, 2019 and further decreased to RMB0.4 million for the year ended December 31, 2020. The gross profit margin from sale of Audi has improved from 2019 to 2020, primarily due to an increase in the average retail price of this brand. Gross losses attributable to the sale of Jaguar-Land Rover increased from RMB0.3 million for the year ended December 31, 2019 to RMB5.2 million for the year ended December 31, 2020, while the gross profit margin for this brand has improved during the year, primarily because (i) our dealership store for Jaguar-Land Rover commenced operations in December 2019 and the sales volume of automobiles for the year was limited; and (ii) after a full year's operations in 2020, the sales volume increased but the cost of automobiles was relatively high due to the limited amount of rebates received. With the increase in operation scale, the profitability of the sales of Jaguar-Land Rover automobiles is expected to improve. Going forward, we plan to optimize our product mix and focus our sales on automobile models, especially the imported ones, which have relatively higher retail price

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and can generate higher profit margins for Audi and Jaguar-Land Rover to improve the profitability of the sale of automobiles for these two brands. Therefore, our Directors do not expect the sale of Audi and Jaguar-Land Rover automobiles to continue to incur gross losses.

Our gross profit margin for sales of automobiles decreased from 4.3% for the year ended December 31, 2018 to 3.7% for the year ended December 31, 2019, primarily due to (i) the decreases in the gross profit margins of Porsche as we lowered the selling price to reduce the inventory of certain models whose new or upgraded models had been introduced in order to be in compliance with the China Six Standard; and (ii) the decrease of 10.4% in incentive rebates that we recorded from automobile manufacturers. The gross profit margin of sales of new automobiles increased slightly from 3.7% for the year ended December 31, 2019 to 5.1% for the year ended December 31, 2020, primarily because except for Volvo, the average retail price for the brands of automobiles we operate for the year ended December 31, 2020 was higher than that for the year ended December 31, 2019.

For the years ended December 31, 2018, 2019 and 2020, our gross profit margins for after-sales services were 48.2%, 46.8% and 45.2%, respectively.

Our gross profit margins for repair and maintenance services were 43.9%, 44.8% and 45.9% for the years ended December 31, 2018, 2019 and 2020, respectively, which remained relatively stable.

Our gross profit margins for sales of accessories and automobile-related products were 53.4% and 53.2% for the years ended December 31, 2018 and 2019, respectively, which remained relatively stable. Our gross profit margin for sales of accessories and automobile-related products decreased from 53.2% for the year ended December 31, 2019 to 42.9% for the year ended December 31, 2020, primarily due to the incentives we offered in the form of discounts and promotions to increase the sale of accessories and other automobile-related products.

Our gross profit margin for insurance agency services decreased from 85.0% for the year ended December 31, 2018 to 46.0% for the year ended December 31, 2019, primarily because the leading insurance companies lowered the maximum commission rates of automobile insurance due to new regulations issued in August 2018 and an increase in promotions in the form of gift cards and coupons provided to customers for our after-sales services to drive the growth of this business. Our gross profit margin of insurance agency services decreased from 46.0% for the year ended December 31, 2019 to 21.2% for the year ended December 31, 2020, primarily due to our promotion with special offers to increase the volume of insurance agency services.

Our gross profit margin for license plate registration services was 78.1% and 79.2% for the year ended December 31, 2018 and 2019, respectively, which remained relatively stable. Our gross profit margin of license plate registration services decreased from 79.2% for the year ended December 31, 2019 to 73.4% for the year ended December 31, 2020, primarily because we provided discounts for this service to customers in order to drive the sales volume of new automobiles.

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Other Income and Gains

Other income and gains primarily consist of (i) interest income from our bank deposits and loans to related parties during the Track Record Period. See “Material Related Party Transactions” in this section for details; (ii) commission income, which consists of income from other value-added services, including referring customers who require financing arrangements for purchasing automobiles and pre-owned automobile brokerage services, warranty extension services, and advertisement agency services; (iii) rental income, which represents the rental fees we received from the properties that we leased out to Independent Third Parties in Beijing and Tianjin; (iv) compensation income, which mainly represents the compensation we received from a contract-related lawsuit brought by us regarding the land use rights of certain properties in Beijing that we intended to obtain for using as the premises of new dealership stores. The lawsuit was settled and a civil mediation agreement was entered into between us and the counterparty and endorsed by Beijing Chaoyang People’s Court (北京市朝陽區人民法院) in 2018, pursuant to which we received approximately RMB114.9 million compensation during the year ended December 31, 2018; (v) government grants, which represent refund of income tax, subsidies and incentive funds received from environmental protection authorities and social security grants; (vi) gain on disposal of items of property, plant and equipment; (vii) gain on disposal of financial assets at fair value through profit or loss; (viii) investment income from financial assets at fair value through profit or loss, which mainly represents the wealth management products we purchased from banks; (ix) gain on disposal of subsidiaries; and (x) others. For the years ended December 31, 2018, 2019 and 2020, our other income and gains amounted to RMB232.9 million, RMB140.3 million and RMB168.5 million, respectively.

The table below sets forth the breakdown of our other income and gains for the years indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|-----------------------|-----------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| <i>Other Income</i> | | | |
| Interest income | 15,004 | 14,365 | 11,592 |
| Commission income | 77,171 | 89,162 | 102,171 |
| Rental income | 9,562 | 9,458 | 7,196 |
| Compensation income ⁽¹⁾ | 115,363 | 29 | 165 |
| Government grants ⁽²⁾ | 553 | 2,012 | 4,942 |
| Others ⁽³⁾ | 11,225 | 16,901 | 20,909 |
| <i>Gains</i> | | | |
| Gain on disposal of property, plant and equipment | 886 | 4,176 | 8,826 |
| Gain on disposal of financial assets at fair value through profit or loss | – | – | 500 |
| Investment income from financial assets at fair value through profit or loss | 3,132 | 4,168 | 9,936 |
| Gain on disposal of subsidiaries | – | – | 2,244 |
| Total | <u>232,896</u> | <u>140,271</u> | <u>168,481</u> |

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Notes:

- (1) For the year ended December 31, 2018, we received a one-off compensation of RMB114.9 million from a lawsuit in relation to the land use rights of certain properties in Beijing.
- (2) For the year ended December 31, 2020, the government grants we received in relation to the COVID-19 pandemic amounted to approximately RMB2.9 million.
- (3) Others mainly represent income from disposal of old automobile parts that were replaced during repair and maintenance, such as filters and tires, as well as used packaging materials and forfeited commitment deposits that we received from customers in connection with their planned purchase of new automobiles and/or after-sales services.

Our business, results of operations and profitability are related to the amount of commission income we receive, which is determined based on the amounts and duration of the loans referred by us to customers in connection with their purchases of new automobiles, and the transaction value of the pre-owned automobiles under our pre-owned automobile brokerage business.

The table below sets forth the breakdown of our commission income for the years indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| <i>Commission Income from:</i> | | | |
| Automobile financing services | 67,155 | 66,605 | 75,051 |
| Pre-owned automobile brokerage services . . . | 7,309 | 13,502 | 15,551 |
| Advertising agency services | – | 7,585 | 655 |
| Others | 2,707 | 1,470 | 10,914 |
| Total | 77,171 | 89,162 | 102,171 |

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The table below sets forth the breakdown of other income and gains from related parties for the years indicated:

| | Year Ended December 31, | | |
|--|--------------------------------|----------------------|----------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| <i>Rental Income from:</i> | | | |
| eCapital | 1,522 | 1,522 | – |
| Beijing eCapital Kechuang Technology Group Ltd. (formerly known as eCapital Technology Development Group Ltd.) | – | – | 669 |
| Beijing Xinbao Technology Co., Ltd. | 1,301 | – | – |
| Baiche Dianping (Beijing) Information Technology Co., Ltd. | 700 | – | – |
| | <u>3,523</u> | <u>1,522</u> | <u>669</u> |
| <i>Commission Income from:</i> | | | |
| eCapital | <u>32</u> | <u>35</u> | <u>59</u> |
| <i>Interest Income from:</i> | | | |
| eCapital | 5,667 | 8,600 | 3,249 |
| Beijing eCapital Kechuang Technology Group Ltd. (formerly known as eCapital Technology Development Group Ltd.) | – | – | 4,291 |
| Beijing Zhoushi Xingye Branding and Management Co., Ltd. | – | – | 1,619 |
| Tianjin Zhoushi Xingye Leasing Co., Ltd. . . | – | – | 326 |
| Beijing Zhoushi Xingye International Trading Co., Ltd. | – | – | 326 |
| BetterLife Global Auctioneering Co., Ltd. . . | – | – | 408 |
| Beijing Xiaobo Technology Co., Ltd. | – | – | 348 |
| | <u>5,667</u> | <u>8,600</u> | <u>10,567</u> |
| Total | <u>9,222</u> | <u>10,157</u> | <u>11,295</u> |

For the years ended December 31, 2018, 2019 and 2020, interest income that we generated from loans to related parties amounted to RMB5.7 million, RMB8.6 million and RMB10.6 million, respectively.

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Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) staff costs, which relate to salary and wage expenses and social insurance and welfare costs of our sales personnel; (ii) advertising and marketing expenses in connection with the marketing and promotional events for the sale of automobiles and other services provided by our dealership stores; (iii) depreciation and amortization relating to showrooms and automobiles for test-drive; and (iv) depreciation of right-of-use assets and lease expenses relating to rental fees of temporary license plates for test-drive automobiles and fees for leasing showrooms and other equipment; (v) office expenses; (vi) property management fees; (vii) utilities expenses; and (viii) others. For the years ended December 31, 2018, 2019 and 2020, our selling and distribution expenses amounted to RMB344.3 million, RMB365.6 million and RMB360.5 million, respectively.

The table below sets forth the breakdown of our selling and distribution expenses for the years indicated:

| | Year Ended December 31, | | |
|--|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Staff costs | 124,085 | 133,254 | 120,911 |
| Advertising and marketing expenses | 69,487 | 70,581 | 67,960 |
| Depreciation and amortization | 64,834 | 55,769 | 57,423 |
| Depreciation of right-of-use assets and lease expenses | 33,744 | 56,892 | 58,014 |
| Office expenses | 10,858 | 11,231 | 16,894 |
| Property management fees | 10,531 | 9,955 | 15,827 |
| Utilities expenses | 8,663 | 9,799 | 5,546 |
| Others ⁽¹⁾ | 22,137 | 18,142 | 17,961 |
| Total | 344,339 | 365,623 | 360,536 |

Note:

- (1) Others mainly represent logistics expenses, business expenses, repair and inspection fees in connection with the equipment and machinery used for our after-sales services and tool fees.

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Administrative Expenses

Administrative expenses primarily consist of (i) staff costs relating to our administrative employees; (ii) depreciation and amortization relating to our office buildings, office supplies and furniture; (iii) office expenses; (iv) professional service fees, which mainly include expenses in connection with the proposed Listing and consulting fees in connection with construction consultants we retained for the renovation and interior design for our offices; (v) property management fees; (vi) bank charges; (vii) tax expenses, which primarily include property tax, land use tax and stamp duty; and (viii) others. For the years ended December 31, 2018, 2019 and 2020, our administrative expenses amounted to RMB191.2 million, RMB153.2 million and RMB192.4 million, respectively. The table below sets forth the breakdown of our administrative expenses for the years indicated:

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
| | 2018 | | 2019 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Staff costs | 62,614 | 32.7 | 58,576 | 38.2 | 66,093 | 34.4 |
| Depreciation and amortization | 34,573 | 18.1 | 29,284 | 19.1 | 31,389 | 16.3 |
| Office expenses | 26,245 | 13.7 | 25,678 | 16.8 | 25,471 | 13.2 |
| Professional service fees | 8,410 | 4.4 | 4,580 | 3.0 | 26,631 | 13.8 |
| Property management fees | 4,755 | 2.5 | 4,891 | 3.2 | 4,642 | 2.4 |
| Bank charges | 4,791 | 2.5 | 3,899 | 2.5 | 3,208 | 1.7 |
| Tax expenses | 18,637 | 9.7 | 11,727 | 7.7 | 11,331 | 5.9 |
| Others ⁽¹⁾ | 31,171 | 16.3 | 14,587 | 9.5 | 23,629 | 12.3 |
| Total | <u>191,196</u> | <u>100.0</u> | <u>153,222</u> | <u>100.0</u> | <u>192,394</u> | <u>100.0</u> |

Note:

(1) Others mainly represent property-related expenses and utilities expenses.

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Other Expenses

Other expenses primarily represent impairment losses on inventories and other receivables. For the years ended December 31, 2018, 2019 and 2020, our other expenses amounted to RMB12.1 million, RMB17.2 million and RMB17.9 million, respectively. We review the carrying amounts of the inventories at the end of each year to determine whether the inventories are carried at the lower of cost and net realizable value. Any shortfalls of net realizable value below the carrying amounts of the inventories are deemed to be impaired. The impairment of inventories for the year ended December 31, 2020 was mainly related to the inventories of domestically manufactured models of Mercedes-Benz, Audi and Volvo.

The table below sets forth the breakdown of our other expenses for the years indicated:

| | Year Ended December 31, | | |
|--|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Write-down of inventories to net realizable value | 12,050 | 17,133 | 7,658 |
| Impairment of financial assets included in prepayments, other receivables and other assets | – | – | 10,240 |
| Exchange losses | – | 45 | – |
| Total | 12,050 | 17,178 | 17,898 |

Finance Costs

Finance costs primarily consist of (i) interest on bank and other borrowings; (ii) interest on lease liabilities, which mainly represents the interests incurred in connection with the lease of properties; and (iii) interest on sale and lease-back liabilities, which mainly consists of the interests incurred in connection with the lease of test-drive automobiles. For the years ended December 31, 2018, 2019 and 2020, our finance costs were RMB83.5 million, RMB56.2 million and RMB41.1 million, respectively.

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The table below sets forth our finance costs for the years indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest on bank and other borrowings | 80,260 | 49,405 | 32,204 |
| Interest on lease liabilities | 2,776 | 5,775 | 7,774 |
| Interest on sale and lease-back liabilities | 513 | 1,062 | 1,076 |
| Total | 83,549 | 56,242 | 41,054 |

Income Tax

Income tax expenses represent the tax expenses arising from the assessable profit generated by our Group in the PRC. Our Company and subsidiaries are incorporated in different jurisdictions with different taxation requirements.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. Pursuant to the PRC Income Tax Law and respective regulations, our PRC operating subsidiaries are subject to Enterprise Income Tax (the “EIT”) at a rate of 25% on the taxable income. No provision for Hong Kong Profits Tax was made as our Group had no assessable profit subject to Hong Kong Profits Tax during the Track Record Period.

Our income tax expenses were RMB156.8 million, RMB105.3 million and RMB113.7 million for the years ended December 31, 2018, 2019 and 2020, respectively. Our effective income tax rate was 36.7%, 31.9% and 27.1% for the years ended December 31, 2018, 2019 and 2020, respectively. Our effective income tax rate was higher than the PRC statutory EIT rate during the Track Record Period, primarily due to the fact that we recorded tax expenses in relation to internal equity transfers pursuant to the Corporate Reorganization and that we were not able to offset tax losses of certain PRC subsidiaries of our Group against taxable profits of other group entities.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes and there were no disputes or unsolved tax issues with the relevant tax authorities.

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 4.3% from RMB8,178.8 million for the year ended December 31, 2019 to RMB8,533.1 million for the year ended December 31, 2020. The increase was primarily due to (i) an increase of RMB393.1 million in revenue generated from sales of automobiles as a result of the ramp-up in the operation scale of our 4S dealership stores for Volvo and Jaguar-Land Rover and the launch of new models of Bentley in 2019, which stimulated the sales performance in 2020. However, following the outbreak of COVID-19, during the Chinese New Year's holidays at the end of January 2020, the government extended the public holiday period during which businesses remained closed. For the remainder of February and March 2020, we implemented staggered work shifts and only had part of our staff on duty during work hours. Meanwhile, residents in Beijing as well as most other parts of China reduced non-essential activities as a result of COVID-19 concerns and postponed test-drives or automobile purchases. Therefore, the sales volume of Porsche, Mercedes-Benz and Audi decreased by approximately 5.8%, 5.2%, and 11.3% during 2020, respectively, as compared to the sales volume in 2019. For imported Volkswagen, except for Touareg (途锐), which met the new emission requirements, all other imported Volkswagen models only met the China Five Standard and therefore, were not qualified for sale in 2020, which resulted in a decrease of approximately 57.8% in sales volume of imported Volkswagen during the year; and (ii) an increase of RMB35.9 million in revenue generated from sales of accessories and other automobile-related products primarily because we offered discounts or promotions to increase the sale of accessories and other automobile-related products. The increases were offset in part by (a) a decrease of RMB73.5 million in revenue generated from repair and maintenance services due to the decrease in business volume as people reduced non-essential activities as a result of the COVID-19 concerns and the work hours of repair and maintenance services that were charged to customers decreased from approximately 333,498 hours for the year ended December 31, 2019 to approximately 294,999 hours for the year ended December 31, 2020; and (b) a decrease of RMB1.5 million in revenue generated from insurance agency services as a result of the decrease in maximum commission rates of automobile insurance imposed by the leading insurance companies since September 2020.

Cost of sales

Our cost of sales increased by 3.7% from RMB7,396.6 million for the year ended December 31, 2019 to RMB7,669.5 million for the year ended December 31, 2020, which was in line with the increase in revenue as described above.

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

Our gross profit increased by 10.4% from RMB782.2 million for the year ended December 31, 2019 to RMB863.6 million for the year ended December 31, 2020. Our gross profit margin increased from 9.6% for the year ended December 31, 2019 to 10.1% for the year ended December 31, 2020. The increase was primarily due to the increases in gross profit and gross profit margin of the sale of automobiles as the average retail price for all the brands of automobiles we operate, other than Volvo, for the year ended December 31, 2020 was equal to or higher than that for the year ended December 31, 2019, which were partially offset by (i) a decrease in gross profit from repair and maintenance services due to the reduced business volume as a result of the COVID-19 pandemic; (ii) a decrease in in gross profit and gross profit margin from sale of accessories and other automobile related products because we offered discounts or promotions to increase such sales; and (iii) a decrease in gross profits and gross profit margin of insurance agency services due to the decrease in maximum commission rate for automobile insurance imposed by the leading insurance companies and the increase in costs in connection with our insurance agency services which mainly related to gift cards and coupons we offered to customers for free as promotion.

Other Income and Gains

Our other income and gains increased by 20.1% from RMB140.3 million for the year ended December 31, 2019 to RMB168.5 million for the year ended December 31, 2020. The increase was primarily due to (i) an increase in commission income from other value-added automobile services, including referring customers who require financing arrangements for purchasing automobiles and pre-owned automobile brokerage services, as well as warranty extension services; (ii) an increase in gain from disposal of items of property, plant and equipment; (iii) an increase in investment income from financial assets at fair value through profit or loss; and (iv) an increase in gain from disposal of subsidiaries. For the year ended December 31, 2020, we received an amount of RMB3.1 million of the compensation from the manufacturer of JAC Volkswagen-Sihao due to the closure of the dealership stores, which was not recurring in nature.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 1.4% from RMB365.6 million for the year ended December 31, 2019 to RMB360.5 million for the year ended December 31, 2020, primarily due to (i) a decrease in staff costs as a result of the decrease in the amount of social insurance contribution for employees due to special policies issued by the local government in light of the COVID-19 pandemic; (ii) a decrease in advertising and marketing expenses as we reduced our offline promotional events due to the COVID-19 pandemic; and (iii) a decrease in utilities expenses as a result of the decrease in the scale of operations during the first half of 2020 due to the COVID-19 pandemic, partially offset by an increase in expenses relating to the depreciation and amortization.

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Administrative Expenses

Our administrative expenses increased by 25.6% from RMB153.2 million for the year ended December 31, 2019 to RMB192.4 million for the year ended December 31, 2020. The increase was primarily due to (i) an increase in staff costs as a result of the increase in salary levels of our administrative staff; (ii) an increase in depreciation and amortization due to the additions of new office furniture and electronic equipment for our vehicles used for administrative purposes; and (iii) an increase in professional fees due to an increase in expenses that we incurred in connection with the proposed Listing and an increase in consulting fees for various administrative purposes.

Other Expenses

We incurred other expenses of RMB17.2 million and RMB17.9 million for the year ended December 31, 2019 and 2020, respectively, which remained relatively stable.

Finance Costs

Our finance costs decreased by 27.0% from RMB56.2 million for the year ended December 31, 2019 to RMB41.1 million for the year ended December 31, 2020, primarily due to the decrease in our bank and other borrowings and the decrease in effective interest rate of our bank borrowings during the year.

Profit before Tax

As a result of the foregoing, our profit before tax increased by 27.3% from RMB330.2 million for the year ended December 31, 2019 to RMB420.2 million for the year ended December 31, 2020.

Income Tax Expense

Our income tax expense increased by 8.0% from RMB105.3 million for the year ended December 31, 2019 to RMB113.7 million for the year ended December 31, 2020, primarily due to the increase in taxable profit that we recorded during the year. Our effective tax rate decreased from 31.9% for the year ended December 31, 2019 to 27.1% for the year ended December 31, 2020, primarily due to the reduction in tax losses not recognized because certain PRC subsidiaries of our Group that recorded tax losses for the year ended December 31, 2019 became profitable for the year ended December 31, 2020.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 36.3% from RMB224.9 million for the year ended December 31, 2019 to RMB306.5 million for the year ended December 31, 2020.

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Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue decreased by 2.7% from RMB8,409.2 million for the year ended December 31, 2018 to RMB8,178.8 million for the year ended December 31, 2019. The decrease was primarily due to (i) a decrease of RMB277.4 million in revenue generated from sales of automobiles mainly as a result of the intense competition in the passenger vehicle dealership market, especially for the brands of imported Volkswagen, Mercedes-Benz and Audi and the transition of automobile models to fulfill the new requirements of the China Six Standard which have been implemented in Zhejiang, Sichuan, Guangdong and Shandong provinces and Tianjin since July 1, 2019, and in Beijing since January 1, 2020. As advised by our PRC Legal Advisor, after the implementation of the China Six Standard, the production and import of light-duty vehicles that only satisfy the China Five Standard are prohibited in China. A transition period, which is six months for Sichuan and three months for Beijing, Tianjin, Guangdong, Shandong and Zhejiang after the implementation of the China Six Standard, has been granted by the local governments. During the transition period, application for registration of vehicles that satisfy the China Five Standard was still accepted by the local government authorities. However, the implementation of the China Six Standard, which has set more stringent emission requirements for light-duty vehicles, has resulted in a transition between automobile models. This transition between models had a significant negative impact on the automobile sales performance of our dealership stores in 2019 as consumers were inclined to hold off purchase decisions until the transition was completed. We adopted a conservative approach when purchasing our inventory for 2019 because automobiles manufactured under the old emission requirements had to be all sold off before the end of 2019 before the new requirements took effect. These old model automobiles were often sold at reduced prices due to the scheduled transition. As our manufacturers just transitioned to models of automobiles that meet the new emission requirements as well, for a while the supplies of these new model automobiles available to us were limited in 2019. In addition, according to the Frost & Sullivan Report, as the China Six Standard was different from the emission standard set by the European Union, some of the imported automobile models that did not comply with China's emission standard were not allowed to enter China's market, which had led to a decrease in the volume of imported automobiles in China during the year of 2019. Meanwhile, automobile manufacturers are relatively more willing to supply the new automobiles, which comply with the China Six Standard in China, to the dealers in areas where such new emission standard has been implemented. All these factors contributed to the decrease in the sales volume of our Bentley, Mercedes-Benz, Audi and imported Volkswagen dealership stores at Beijing, Qingdao and Weifang for 2019 compared with 2018. The decrease in sales volume of Porsche automobiles from our dealership stores in Beijing and Tianjin was offset in part by an increase in sales volume of automobiles from our Porsche dealership stores in Chengdu, primarily because the local government in Sichuan province has granted a transition period to extend the effective date of the new emission requirements to January 1, 2020, which allowed our Porsche dealership stores in Chengdu to sell automobiles that satisfy both the old and new emission requirements during July to December 2019. In addition, since our Volvo dealership store in Beijing commenced operations in December 2018, the sales

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volume of this dealership store increased significantly after a full year's operation in 2019; and (ii) a decrease of RMB26.9 million in revenue generated from insurance agency services, primarily because the leading insurance companies lowered the maximum commission rates of automobile insurance, which were partially offset by an increase of RMB76.7 million in revenue generated from repair and maintenance services due to the increase in the value of each transaction. The work hours of repair and maintenance services that were charged to customers also increased from approximately 318,098.8 hours for the year ended December 31, 2018 to 333,497.6 hours for the year ended December 31, 2019.

Cost of sales

Cost of sales decreased by 2.5% from RMB7,584.0 million for the year ended December 31, 2018 to RMB7,396.6 million for the year ended December 31, 2019. This decrease was in line with the decrease in sales volume of automobiles.

Gross Profit and Gross Profit Margin

Gross profit decreased by 5.2% from RMB825.2 million for the year ended December 31, 2018 to RMB782.2 million for the year ended December 31, 2019. Our gross profit margin decreased slightly from 9.8% for the year ended December 31, 2018 to 9.6% for the year ended December 31, 2019, primarily due to (i) the decrease in gross profit margin of the sale of automobiles, especially the brand of Porsche, as we lowered the selling price to reduce the inventory of certain automobiles whose new or upgraded models had been introduced in order to be in compliance with the China Six Standard promulgated by the PRC government authorities, and the decrease of approximately 10.4% in incentive rebates that we recorded from automobile manufacturers as a result of the decrease in sales volume of automobiles during the year; and (ii) the decrease in gross profit margin of insurance agency services due to the decrease in maximum commission rate for automobile insurance imposed by the leading insurance companies and the increase in costs in connection with our insurance agency services which mainly related to gift cards and coupons we offered to customers for free as promotions of our repair and maintenance services.

Other Income and Gains

Other income and gains decreased by 39.8% from RMB232.9 million for the year ended December 31, 2018 to RMB140.3 million for the year ended December 31, 2019, primarily due to the decrease in compensation income as we received a one-off compensation of approximately RMB114.9 million from a lawsuit relating to the land use rights of certain of our properties in Beijing, while we did not record any significant compensation income in 2019. This was partially offset by (i) an increase in commission income of RMB12.0 million in connection with the service fees we received from the automobile financing, pre-owned automobile brokerage services and advertisement agency services; (ii) an increase in gains on disposal of property, plant and equipment of RMB3.3 million; and (iii) an increase in others primarily due to an increase in forfeited non-refundable commitment deposits from customers in 2019.

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Selling and Distribution Expenses

Our selling and distribution expenses increased by 6.2% from RMB344.3 million for the year ended December 31, 2018 to RMB365.6 million for the year ended December 31, 2019. The increase was primarily due to (i) an increase in depreciation of right-of-use assets and lease expenses of approximately RMB23.1 million as we disposed of certain subsidiaries, from which we leased properties for the operations of our 4S dealership stores, to the ultimate beneficiary owner of our Group during 2018, leading to an increase in depreciation of right-of-use assets for 2019; and (ii) an increase in staff costs as a result of the increase in incentive bonus that we paid to sales personnel to promote the sales of automobiles, which were partially offset by a decrease in other selling and distribution expenses due to the continuous efforts of our Group to reduce operating expenses.

Administrative Expenses

Our administrative expenses decreased by 19.9% from RMB191.2 million for the year ended December 31, 2018 to RMB153.2 million for the year ended December 31, 2019, primarily due to (i) a decrease in depreciation and amortization as the subsidiaries that leased certain properties to our 4S dealership stores have been disposed of to the ultimate beneficiary owner of our Group during 2018; (ii) a decrease in tax expenses in relation to property taxes; and (iii) a decrease in other administrative expenses mainly due to the decrease in property-related expenses as well as our of continuous efforts to reduce operating expenses.

Other Expenses

Our other expenses increased by 42.6% from RMB12.1 million for the year ended December 31, 2018 to RMB17.2 million for the year ended December 31, 2019. The increase was primarily due to the decrease in sales volume of automobiles, which resulted in the increase in impairment losses on automobile inventories. The impairment of inventories for the year ended December 31, 2019 mainly related to the inventories of domestically manufactured models of Mercedes-Benz, Audi and Volvo.

Finance Costs

Our finance costs decreased by 32.7% from RMB83.5 million for the year ended December 31, 2018 to RMB56.2 million for the year ended December 31, 2019, primarily due to the decrease in our bank and other borrowings during 2019 and the decrease of effective interest rate of the bank and other borrowings.

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Profit before Tax

As a result of the foregoing, our profit before tax decreased by 22.7% from RMB427.0 million for the year ended December 31, 2018 to RMB330.2 million for the year ended December 31, 2019.

Income Tax Expense

Our income tax expense decreased by 32.8% from RMB156.8 million for the year ended December 31, 2018 to RMB105.3 million for the year ended December 31, 2019. The decrease was primarily due to (i) the decrease in our profit before tax in 2019; and (ii) one-off tax effect of RMB30.6 million in relation to the Corporate Reorganization in 2018. Our effective tax rate was 31.9% for the year ended December 31, 2019, compared with 36.7% for the year ended December 31, 2018. For the year ended December 31, 2018, we recorded tax expenses of approximately RMB30.6 million in relation to internal equity transfers pursuant to the Corporate Reorganization and due to expenses of approximately RMB16.0 million we incurred because we were not able to offset tax losses of certain PRC subsidiaries of our Group against taxable profits of other group entities within the year ended December 31, 2018. The effective tax rates, after excluding the impact of such factors, would be approximately 25.8% for the year ended December 31, 2018. For the year ended December 31, 2019, we incurred expenses of approximately RMB24.0 million because we were not able to offset tax losses of certain PRC subsidiaries of our Group against taxable profits of other group entities within 2019. The effective tax rates, after excluding the impact of such factors, would be approximately 24.6% for the year ended December 31, 2019.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by 16.8% from RMB270.2 million for the year ended December 31, 2018 to RMB224.9 million for the year ended December 31, 2019.

FINANCIAL INFORMATION

DESCRIPTION OF CERTAIN KEY ITEMS FROM OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Current Assets and Current Liabilities

The table below sets forth details of our current assets and liabilities as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|-----------------------|-----------------------|-----------------------|--------------------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> <i>(Unaudited)</i> |
| Current Assets | | | | |
| Inventories | 818,925 | 678,014 | 444,963 | 658,051 |
| Trade receivables | 71,313 | 65,294 | 38,246 | 70,055 |
| Amounts due from related parties | 104,422 | 104,402 | 11,621 | 8,389 |
| Prepayments, other receivables and other assets | 407,067 | 335,141 | 392,945 | 353,875 |
| Financial assets at fair value through profit or loss | 185,920 | 197,000 | 439,000 | 330,500 |
| Pledged deposits | 66,630 | 32,934 | 25,451 | 48,176 |
| Cash in transit | 10,908 | 21,550 | 6,160 | 18,748 |
| Cash and cash equivalents | 249,315 | 374,721 | 230,672 | 269,149 |
| | <u>1,914,500</u> | <u>1,809,056</u> | <u>1,589,058</u> | <u>1,756,943</u> |
| Current Liabilities | | | | |
| Trade and bills payables | 91,498 | 83,654 | 145,625 | 221,387 |
| Amounts due to related parties | 8,466 | 13,130 | 11,059 | 7,931 |
| Other payables and accruals | 202,116 | 149,216 | 169,847 | 134,203 |
| Contract liabilities | 210,375 | 215,944 | 269,118 | 328,307 |
| Interest-bearing bank and other borrowings | 1,131,573 | 946,282 | 326,106 | 287,558 |
| Lease liabilities | 29,699 | 27,854 | 34,222 | 34,923 |
| Tax payable | 65,066 | 17,701 | 44,712 | 31,378 |
| | <u>1,738,793</u> | <u>1,453,781</u> | <u>1,000,689</u> | <u>1,045,687</u> |
| Net current assets | <u>175,707</u> | <u>355,275</u> | <u>588,369</u> | <u>711,256</u> |

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We expect to finance our operations, repay loans and borrowings and fund future capital commitments primarily from our internal financial resources, including cash generated from operations. As such, we strive to effectively manage our cash flow and capital commitments and to ensure that we have sufficient funds to meet our existing and future cash requirements. In addition to cash generated from our operations, we seek bank loans and other borrowings as well as proceeds from the Global Offering to fund our working capital requirements and our network expansion. We have maintained long-term relationships with various commercial banks and financial institutions and we believe that our existing short-term bank loans will be accepted for renewal upon their maturity, if necessary.

We had net current assets of RMB711.3 million as of April 30, 2021, compared to RMB588.8 million as of December 31, 2020. The increase was mainly due to (i) an increase in inventories, primarily due to the further growth in the demand for luxury and ultra-luxury brand automobiles in 2021; and (ii) a decrease in interest-bearing bank and other borrowings as a result of our repayments.

As of December 31, 2020, we had net current assets of RMB588.4 million as compared to the net current assets of RMB355.3 million as of December 31, 2019. The increase was primarily due to (i) a decrease of RMB620.2 million in interest-bearing bank and other borrowings as a result of our repayments of certain bank loans and borrowings during the year; (ii) an increase of RMB57.8 million in prepayments, other receivables and other assets primarily due to an increase in prepayments we made to manufacturers for procuring new automobiles as the demand for luxury and ultra-luxury brand automobiles has gradually recovered since the third quarter of 2020 when the spread of COVID-19 has been contained in China and an increase in rebate receivables; and (iii) an increase of RMB242.0 million in financial assets at fair value through profit or loss.

We had net current assets of RMB355.3 million as of December 31, 2019, compared to net current assets of RMB175.7 million as of December 31, 2018. The increase was primarily due to (i) an increase in cash and cash equivalents; (ii) a decrease in interest-bearing bank and other borrowings due to repayments of certain bank loans and other borrowings during the year; (iii) a decrease in other payable and accruals, mainly due to the settlements made during the year; and (iv) a decrease in tax payable, primarily due to a one-off taxable compensation of approximately RMB114.9 million that we received in 2018 in connection with a contract-related lawsuit of the land use rights of our certain properties in Beijing.

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Inventories

Our inventories mainly include (i) new automobiles; and (ii) spare parts and accessories.

The table below sets forth a summary of our balance of inventories as of the dates indicated:

| | As of December 31, | | |
|--|---------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Automobiles | 780,229 | 642,038 | 408,896 |
| Spare parts and accessories | 50,746 | 53,109 | 43,725 |
| Less: provisions for inventories | (12,050) | (17,133) | (7,658) |
| Total | 818,925 | 678,014 | 444,963 |

The tables below set out the ageing analysis on inventories as of the dates indicated:

| | As of December 31, 2018 | | | |
|--|--------------------------------|--------------------------|-------------------------------|------------------------|
| | Within 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Automobiles | 699,904 | 63,142 | 14,896 | 2,287 |
| Spare parts and accessories | 37,709 | 4,488 | 3,983 | 4,566 |
| Less: provisions for inventories | (10,544) | (1,463) | (43) | – |
| Total | 727,069 | 66,167 | 18,836 | 6,853 |

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| | As of December 31, 2019 | | | |
|--|-------------------------|----------------------|-----------------------|---------------------|
| | Within 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | |
| Automobiles | 634,322 | 7,716 | – | – |
| Spare parts and accessories | 41,330 | 6,311 | 2,506 | 2,962 |
| Less: provisions for inventories | (16,798) | (335) | – | – |
| Total | <u>658,854</u> | <u>13,692</u> | <u>2,506</u> | <u>2,962</u> |

| | As of December 31, 2020 | | | |
|--|-------------------------|---------------------|-----------------------|-------------------|
| | Within 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | | |
| Automobiles | 406,365 | 2,531 | – | – |
| Spare parts and accessories | 39,888 | 3,035 | 452 | 350 |
| Less: provisions for inventories | (7,593) | (65) | – | – |
| Total | <u>438,660</u> | <u>5,501</u> | <u>452</u> | <u>350</u> |

The tables below set out the movement of our inventories during the Track Record Period:

| | Balance as of January 1, 2018 | Procurement amount during the year | Sales amount during the year | Disposal of subsidiaries | Balance as of December 31, 2018 |
|---------------------------------------|-------------------------------------|--|------------------------------------|-----------------------------|---------------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Automobiles | 695,698 | 7,462,601 | (7,378,070) | – | 780,229 |
| Spare parts and accessories | 55,624 | 485,951 | (490,829) | – | 50,746 |
| Total | <u>751,322</u> | <u>7,948,552</u> | <u>(7,868,899)</u> | <u>–</u> | <u>830,975</u> |

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| | Balance as of January 1, 2019 | Procurement amount during the year | Sales amount during the year | Disposal of subsidiaries | Balance as of December 31, 2019 |
|---------------------------------------|-------------------------------------|--|------------------------------------|-----------------------------|---------------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Automobiles | 780,229 | 7,045,625 | (7,183,816) | - | 642,038 |
| Spare parts and accessories | 50,746 | 545,647 | (543,284) | - | 53,109 |
| Total | 830,975 | 7,591,272 | (7,727,100) | - | 695,147 |

| | Balance as of January 1, 2020 | Procurement amount during the year | Sales amount during the year | Disposal of subsidiaries | Balance as of December 31, 2020 |
|---------------------------------------|-------------------------------------|--|------------------------------------|-----------------------------|---------------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Automobiles | 642,038 | 7,317,622 | (7,543,186) | (7,578) | 408,896 |
| Spare parts and accessories | 53,109 | 520,909 | (529,626) | (667) | 43,725 |
| Total | 695,147 | 7,838,531 | (8,072,812) | (8,245) | 452,621 |

Our inventories decreased by 17.2% from RMB818.9 million as of December 31, 2018 to RMB678.0 million as of December 31, 2019, and further decreased to RMB445.0 million as of December 31, 2020, primarily due to our efforts to reduce our inventory level to improve our operating efficiency and to maintain an optimal turnover rate of our inventories.

The following table sets out our average inventory turnover days during the Track Record Period:

| | Year Ended December 31, | | |
|--|-------------------------|------|------|
| | 2018 | 2019 | 2020 |
| Average inventory turnover days ⁽¹⁾ | 37.6 | 36.9 | 26.7 |

Note:

- (1) Average inventory turnover days for a year is calculated by the average of the beginning and ending inventory balances of the year divided by cost of sales for the same year and multiplied by 365 days for 2018, 2019 and 2020.

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Our average inventory turnover days decreased from approximately 37.6 days for the year ended December 31, 2018 to approximately 36.9 days for the year ended December 31, 2019, and further decreased to 26.7 days for the year ended December 31, 2020. The decrease was primarily due to our efforts to reduce the inventory level and to improve our operating efficiency.

As of April 30, 2021, approximately RMB443.9 million, or approximately 99.8%, of our inventories as of December 31, 2020 had been sold.

Trade Receivables

Our trade receivables primarily represent (i) receivables from financing companies in connection with the purchase of new automobiles for which the customers used the financing companies' mortgage services to make the payment; (ii) receivables of after-sales service fees from insurance companies in connection with the after-sales services we provided which were covered by insurance; (iii) receivables of reimbursement from manufacturers in connection with the after-sales services we provided; and (iv) receivables from certain customers for the provision of after-sales services.

The table below sets forth the details of trade receivables as of the dates indicated:

| | As of December 31, | | |
|---|---------------------------|----------------|----------------|
| | <i>2018</i> | <i>2019</i> | <i>2020</i> |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 71,313 | 65,294 | 38,246 |
| Impairment | — | — | — |
| Total | 71,313 | 65,294 | 38,246 |
| Trade receivable turnover days ⁽¹⁾ | 3.9 | 3.0 | 2.2 |

Note:

(1) Average trade receivable turnover days are calculated by dividing the average of beginning and ending trade receivable balances by revenue for the relevant period and multiplied by 365 days for 2018, 2019 and 2020.

Mortgage receivables are normally settled within seven days directly by the relevant financing companies. We generally traded with our customers on cash.

Our trade receivables decreased from RMB71.3 million as of December 31, 2018 to RMB65.3 million as of December 31, 2019 and further decreased to RMB38.2 million as of December 31, 2020, primarily because we increased our efforts to collect our receivables and

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received settlement of mortgage receivables from financing companies and commercial banks in respect of our sales of automobiles, and settlement from insurance companies and automobile manufacturers for our after-sales services.

Our average trade receivable turnover days indicate the time required to obtain cash proceeds from our sales. We maintained short turnover days during the Track Record Period mainly because sales of new automobiles are usually delivered upon payment. Our average trade receivable turnover days remained relatively stable during the Track Record Period.

We have not provided for impairment loss for our trade receivables balances which were past due as of the end of each reporting date as these receivables were due from certain major customers with no recent history of default. We closely monitor the credit quality of receivables and consider those receivables that were neither past due nor impaired to be of good credit quality with satisfactory settlement pattern.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

| | As of December 31, | | |
|-----------------------------|---------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 3 months | 67,863 | 61,151 | 37,943 |
| 3 to 6 months | 335 | 2,301 | 254 |
| 6 months to 1 year. | 2,297 | 1,808 | 49 |
| Over 1 year | 818 | 34 | – |
| Total | 71,313 | 65,294 | 38,246 |

As of April 30, 2021, approximately RMB38.2 million, or 100%, of our trade receivables outstanding as of December 31, 2020 had been settled.

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Amounts Due from Related Parties

During the Track Record Period, amounts due from related parties primarily included (i) loans we granted to Beijing Zhoushi, eCapital, Betterlife (China) Investment Co., Ltd, Beijing Xiaobo Technology Co., Ltd and Beijing eCapital Kechuang Technology Group Ltd. (formerly known as eCapital Technology Development Group Ltd.), which were non-trade in nature; (ii) prepayments to Beijing Zhoushi in connection with the construction services; and (iii) rental deposits and deposits for sale and lease-back transactions. The table below sets forth the balance due from related parties as of the dates indicated:

| | Year Ended December 31, | | |
|--|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| eCapital | 88,372 | 52,237 | 2,860 |
| Beijing Zhoushi | – | 50,000 | 18,644 |
| Chou International Investment | 4,635 | – | – |
| BetterLife (China) Investment Co., Ltd . . . | 6,000 | – | – |
| Beijing Xiaobo Technology Co., Ltd | 1,200 | – | – |
| Beijing eCapital Kechuang Technology Group Ltd. (formerly known as eCapital Technology Development Group Ltd.) . . | 2,113 | – | – |
| Chuanwu Trade | 2,102 | 2,165 | 413 |
| Total | 104,422 | 104,402 | 21,917 |

As of December 31, 2018, 2019 and 2020, the loans we granted to related parties were RMB96.1 million, RMB100.0 million and nil, which were non-trade in nature and had been fully settled as of December 31, 2020. For the outstanding balance of related-party transactions conducted in the ordinary course of our business, we intend to settle the amounts pursuant to the agreements with the relevant parties. We do not intend to continue to provide loans to related parties in the future.

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The loans to our related parties were not allowed under the General Lending Provisions (貸款通則) promulgated by the PBOC in 1996, the Banking Regulation Law of the PRC (中華人民共和國銀行業監督管理法) promulgated by the Standing Committee of the National People's Congress in 2003 and amended in 2006 and other relevant laws and regulations, until the Private Lending Regulations was promulgated on August 6, 2015 and came into effect on September 1, 2015.

According to the Private Lending Regulations, lending contracts among companies are valid if they are made for purposes of supporting production or business operations except for circumstances stipulated in the relevant provisions of the Civil Code and the Private Lending Regulations, which may result in a void contract. From September 1, 2015 to August 20, 2020, which was prior to the revision of the Private Lending Regulations, when the interests agreed upon by both parties did not exceed the annual interest rate of 24% and the lender requested the borrower to pay interests according to the agreed interest rate, the PRC courts should support it. Since August 20, 2020, according to the revised Private Lending Regulations, the overdue interest rate agreed by the borrower and lender shall not exceed four times of the loan prime rate for one-year loan when the contract is concluded.

As confirmed by our Directors, (i) our related party loans were generated after September 1, 2015, when the Private Lending Regulations became effective and we have already ceased to charge interests on loans made to related parties as of the Latest Practicable Date; (ii) there is no circumstance that may cause the loan contracts between us and the related parties to be invalid or any dispute between the relevant parties during the performance of the loan contracts; and (iii) as of the Latest Practicable Date, we had not received any notice or been penalized because of the interest-bearing loans. Based on the above, although our loans to related parties do not comply with the General Lending Provisions, our PRC Legal Advisor is of the view that the risk of us being penalized is low in respect of the above-mentioned borrowings under the condition that there are no material changes in current laws and regulations or the interpretation or implementation thereof in China.

Prepayments, Other Receivables and Other Assets

Our prepayments primarily represent the prepayments we make to automobiles manufacturers for purchasing new automobiles, spare parts and other accessories. Other receivables mainly consist of the deposits to automobile manufacturers. Other assets primarily include rebate receivables from automobile manufacturers, pawn receivables in connection with Yiwei Diandang, value-added tax recoverable and other tax recoverable.

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The following table sets forth the components of our prepayments, other receivables and other assets as of the dates indicated:

| | As of December 31, | | |
|--|---------------------------|-----------------------|-----------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Prepayments | 104,510 | 79,058 | 118,563 |
| Other receivables ⁽¹⁾ | 109,501 | 98,950 | 131,206 |
| Rebate receivables | 154,488 | 135,263 | 153,787 |
| Pawn loan receivables ⁽²⁾ | 31,880 | 17,900 | – |
| Value-added tax recoverable | 16,618 | 15,497 | 9,808 |
| Tax recoverable | 329 | 2,775 | – |
| | <u> </u> | <u> </u> | <u> </u> |
| Less: Non-current portion | (5,259) | (9,302) | (5,179) |
| Provision for impairment of other receivables | (5,000) | (5,000) | (15,240) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>407,067</u> | <u>335,141</u> | <u>392,945</u> |

Notes:

- (1) Other receivables mainly include deposits with the automobile manufacturers.
- (2) As of December 31, 2018 and 2019, the pawn loan receivables were interest-bearing and secured with pledged assets with fair values of RMB72.0 million and RMB82.0 million, respectively. We discontinued our pawn loan services in January 2021. See “Business — Discontinued Operations — Pawn Loan Services” in this prospectus for details.

The table below sets forth the ageing analysis on rebate receivables during the Track Record Period:

| | Year ended December 31, | | |
|------------------------------|--------------------------------|-----------------------|-----------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 3 months | 113,937 | 110,286 | 143,625 |
| 3 to 6 months | 35,467 | 17,503 | 1,888 |
| 6 months to 1 year | 4,317 | 7,474 | 8,274 |
| Over 1 year | 767 | – | – |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>154,488</u> | <u>135,263</u> | <u>153,787</u> |

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The table below sets forth the movement of rebate receivables during the Track Record Period:

| | Year ended December 31, | | |
|--|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Balance at the beginning of the year | 241,881 | 154,488 | 135,263 |
| Provision recognized during the year | 392,289 | 351,367 | 472,861 |
| Amount received during the year | (479,682) | (370,592) | (445,516) |
| Disposal of subsidiaries | – | – | (8,821) |
| Balance at the end of the year | 154,488 | 135,263 | 153,787 |

As of April 30, 2021, approximately RMB136.7 million, or 88.9%, of our rebate receivables outstanding as of December 31, 2020 had been settled.

Our prepayments, other receivables and other assets decreased by 17.7% from RMB407.1 million as of December 31, 2018 to RMB335.1 million as of December 31, 2019, primarily due to (i) a decrease of RMB25.5 million in prepayments, which was mainly due to the decrease in prepayments we made to manufacturers for procuring new automobiles; (ii) a decrease of RMB10.6 million in other receivables as a result of the decrease in deposits we made to automobile manufacturers; (iii) a decrease of RMB19.2 million in rebates receivables from automobiles manufacturers in line with the decrease in sales volume of new automobiles in 2019; and (iv) a decrease of RMB14.0 million in pawn receivables as a result of scaling down the pawn loan services provided by Yiwei Diandang.

Our prepayments, other receivables and other assets increased by 17.2% from RMB335.1 million as of December 31, 2019 to RMB392.9 million as of December 31, 2020, primarily due to (i) an increase of RMB39.5 million in prepayments, which was mainly due to the increase in prepayments we made to manufacturers for procuring new automobiles as the demand for luxury and ultra-luxury brand automobiles gradually recovered since the third quarter of 2020 when the spread of COVID-19 has been contained in China; and (ii) an increase of RMB18.5 million in rebate receivables from automobiles manufacturers in line with the recovery of demand for new automobiles, which were partially offset by (i) a decrease of RMB17.9 million in pawn receivables as we planned to deregister Yiwei Diandang; and (ii) a decrease of RMB5.7 million in value-added tax recoverable.

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Financial Assets at Fair Value through Profit or Loss

During the Track Record Period, we made investments in financial assets at fair value through profit or loss. These investments primarily include investments in short-term wealth management products issued by licensed commercial banks in the PRC. These wealth management products we invested in during the Track Record Period were mainly unlisted funds in the PRC, which primarily consisted of (i) highly liquid assets, including, but not limited to, PRC government bonds, financial bonds, corporate bonds, enterprise bonds, short-term financing instruments, medium-term notes, subordinated bonds, bank deposits and currency funds; (ii) trust plans in which the underlying assets are standardized debt assets; and (iii) various types of asset management plans, or a combination of any of the foregoing.

The underlying risk levels of these wealth management products are generally low-risk. According to the underlying contracts for these wealth management products, the investment allocation decisions of these unlisted funds are generally made by the commercial banks on a discretionary basis. We made investments in these wealth management products primarily for the purposes of gaining higher short-term investment returns than the fixed rate returns from cash deposits at banks. The following table sets forth the balance of our financial assets at fair value through profit or loss as of the dates indicated:

| | As of December 31, | | |
|--|--------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Unlisted equity investments, at fair value . . | 10,000 | 10,000 | – |
| Financial products, at fair value. | 185,920 | 197,000 | 439,000 |
| Total | 195,920 | 207,000 | 439,000 |

During the Track Record Period, the unlisted equity investments at fair value primarily represented the investment of RMB10.0 million we made to Beijing Silk Road Yunhe Investment (Limited Partnership) (北京絲路雲和投資中心(有限合伙)). Other financial products at fair value primarily represented the principal-unprotected floating income wealth management products that we purchased from commercial banks, with investment return rates generally ranging from approximately 2.2% to 3.8% per annum and can be redeemed anytime.

We subscribed for approximately 2.0% of equity interest in Beijing Silk Road Yunhe Investment (Limited Partnership) (北京絲路雲和投資中心(有限合伙)) (the “**Investment Fund**”) in July 2017. Our Company had no control, joint control or significant influence on the Investment Fund. According to the requirements of IFRS 9 “*Financial Instruments*” and IFRS 13 “*Fair Value Measurement*”, the Investment Fund made by our Group is recognized as financial assets at fair value through profit or loss and shall be measured at fair value as of the

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date of the balance sheet. Accordingly, our Company has engaged a third-party valuer to assess the fair value of certain of the investment portfolio of the Investment Fund as of the date of the consolidated statement of balance sheet.

According to the International Valuation Standards, the investment portfolio of the Investment Fund shall be valued pursuant to IVS 200 “Businesses and Business Interests”. There are three approaches that are frequently applied in the valuation of businesses and business interests, namely market approach, income approach and cost approach. The valuer has applied the market approach in assessing the equity value held by the Investment Fund.

Our Directors have checked the qualification of the valuer and reviewed the valuation report prepared by the qualified valuer. Our Directors have also discussed with the valuer regarding the valuation methods adopted in the process of the assessments. Having reviewed the relevant data selected by the valuer in conducting the assessments, our Directors are of the opinion that the method applied by the valuer in conducting the assessments is appropriate and the valuer has followed the applicable International Valuation Standards under the market approach when selecting and adjusting comparable companies information. Based on the above, our Directors are satisfied with the valuation of our Group’s level 3 financial assets with reference to “Guidance note on directors’ duties in the context of valuation in corporate transactions” issued by the SFC.

The reporting accountants of our Company have discussed with the management of our Company and the qualified valuer about the valuation approach, key inputs and assumptions used by the qualified valuer and involved internal valuation specialists to review the valuation report prepared by the qualified valuer and the relevant underlying documents from the qualified valuer. The reporting accountants of our Company have not identified any exceptions on the valuation of our Group’s level 3 financial assets and its measurement in accordance with IFRS throughout performing the aforementioned procedures.

Having (i) reviewed the valuation report of the Investment Fund; and (ii) discussed with the management of our Company on the work done and valuation standard in respect of the valuation of the Investment Fund, the Sole Sponsor concurs with the view of our Directors and is satisfied with the valuation of our Group’s level 3 financial assets with reference to “Guidance note on directors’ duties in the context of valuation in corporate transactions” issued by the SFC.

Treasury Management Policy

It is our treasury management policy to utilize surplus cash reserves to invest in low-risk wealth management products and generate income without interfering with our business operations or capital expenditures. To control our risks, we typically invest in low or medium-risk, and short-term (maturity period generally not more than one year) wealth management products, such as (i) money market instruments including certified deposits and currency funds; and (ii) debt instruments including sovereign debt, central bank-issued debts and various debt funds. We do not generally invest in equity securities or any wealth

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management products backed by unsecured debt securities. For investments within our pre-determined limit, our Board has authorized the chairman of our Board to make investment decisions and sign contracts. Our finance department is in charge of our wealth management activities. Where necessary, we will engage external experts to research and assess investment products and prepare research reports. Before our finance department implements an investment decision, approval by our chairman is required and all relevant investment contracts must be signed by our chairman. Our finance department tracks the underlying investments of our wealth management products, and analyzes their performance and progress. If such analysis reveals any risks for our wealth management products, we shall take action immediately to manage our investment risks. Our internal auditing team, independent directors and supervising board have the right to monitor and review our investment and to engage professional agencies to review and audit if they deem necessary. Our finance department reviews our cash position, operating cash requirements and potential investment opportunities every month with the assistance of our accounting and finance personnel, and submit a monthly investment plan and cash budget, which shall include (i) a suggested scope of the following month's investment targets based on our business and investment policies, and (ii) maximum balance of financial assets during the month and amount that may be used for investment as well as investment period. This monthly investment plan shall be submitted to the chief financial officer and chairman of our Board for approval, and shall be submitted to our Board for approval when necessary. Our chief financial officer and chairman of our Board review and approve such monthly investment plan and cash budget every month, taking into account whether there will be any negative impact on our Group's cash position and operating cash requirements. Our finance department personnel strictly follow the monthly investment plan to execute investment and redemption decisions.

Cash in Transit

Our cash in transit primarily represents the sales proceeds settled by credit cards, which have not yet been credited to our Group by the relevant banks. As of December 31, 2018, 2019 and 2020, our cash in transit was RMB10.9 million, RMB21.6 million and RMB6.2 million, respectively. The changes in cash in transit during the Track Record Period were related to the number of customers who made payments by credit cards.

Cash and Cash Equivalents

Our cash and cash equivalents consist of cash on hand and deposits we had in bank accounts. As of December 31, 2018, 2019 and 2020, our cash and cash equivalents amounted to RMB249.3 million, RMB374.7 million and RMB230.7 million, respectively.

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Trade and Bills Payables

Our trade and bills payables primarily consist of amounts due to (i) automobile manufacturers for our procurement of new automobiles; and (ii) suppliers of automobile parts and accessories for our procurement. We had trade and bills payables of RMB91.5 million, RMB83.7 million and RMB145.6 million as of December 31, 2018, 2019 and 2020, respectively.

The table below sets forth the details of trade and bills payables as of the dates indicated:

| | As of December 31, | | |
|---|--------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables | 61,498 | 83,654 | 98,171 |
| Bills payables | 30,000 | – | 47,454 |
| Total | 91,498 | 83,654 | 145,625 |
| Trade and bills payables turnover days ⁽¹⁾ . . | 4.3 | 4.3 | 5.5 |

Note:

- (1) Average trade and bills payables turnover days are calculated by dividing the average of beginning and ending trade and bills payables balances by cost of sales for the relevant period and multiplied by 365 days for 2018, 2019 and 2020.

Our trade and bills payables decreased by 8.6% from RMB91.5 million as of December 31, 2018 to RMB83.7 million as of December 31, 2019, which was in line with the decrease in amount of inventories and sales volume of automobiles in 2019. Our trade and bills payables increased by 74.1% from RMB83.7 million as of December 31, 2019 to RMB145.6 million as of December 31, 2020, primarily due to the increase in procurement of new automobiles that we made after September 2020 as the demand for luxury and ultra-luxury brand automobiles gradually recovered from the impact of the COVID-19 pandemic.

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The following table sets forth the aging analysis of our trade and bills payables as of the dates indicated:

| | As of December 31, | | |
|------------------------------|---------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 3 months | 61,401 | 83,239 | 143,697 |
| 3 to 6 months | 30,027 | 62 | 1,573 |
| 6 months to 1 year | – | 90 | 41 |
| Over 1 year | 70 | 263 | 314 |
| Total | 91,498 | 83,654 | 145,625 |

As of April 30, 2021, approximately RMB138.9 million, or 95.4%, of our trade and bills payables outstanding as of December 31, 2020 had been settled.

Amounts Due to Related Parties

During the Track Record Period, amounts due to related parties primarily consisted of sale and lease-back liabilities in connection with test-drive automobiles, prepayments for purchasing new automobiles and payables for information technology support services. The table below sets forth the balance due to related parties as of the dates indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| eCapital | 7,363 | 6,960 | 10,979 |
| Beijing Xiaobo Technology Co., Ltd | – | 6,163 | – |
| Baiche Dianping (Beijing) Information Technology Co., Ltd. | – | 3 | – |
| Tianjin Zhoushi International Trade Co., Ltd | – | 4 | – |
| Chuanwu Trade | – | – | 27 |
| Beijing Zhoushi | 1,103 | – | 53 |
| Total | 8,466 | 13,130 | 11,059 |

The outstanding amounts due to related parties are trade in nature and we intend to settle the amounts pursuant to the agreements with relevant parties.

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Other Payables and Accruals

Our other payables and accruals primarily consist of (i) other taxes payables, which represent all tax payables, including, among others, value-added tax, stamp duty and education surcharges; (ii) payroll payables; and (iii) other payables, which represent interest payables to interest-bearing borrowings, deposits from customers and other advertising expense payables.

The table below sets forth the details of other payables and accruals as of the dates indicated:

| | As of December 31, | | |
|--------------------------------|--------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Other taxes payables | 39,664 | 49,488 | 66,393 |
| Payroll payables | 91,736 | 60,696 | 32,026 |
| Other payables. | 70,716 | 39,032 | 71,428 |
| Total | 202,116 | 149,216 | 169,847 |

Our other payables and accruals decreased by 26.2% from RMB202.1 million as of December 31, 2018 to RMB149.2 million as of December 31, 2019, primarily as a result of the settlements made during the year, which were partially offset by an increase of RMB9.8 million in other taxes payables due to the increases in value-added tax payables.

Our other payables and accruals increased by 13.8% from RMB149.2 million as of December 31, 2019 to RMB169.8 million as of December 31, 2020, primarily due to (i) an increase in other payables as a result of increases in listing expenses payables; and (ii) an increase in other taxes payables due to the increase in our procurement of automobiles from manufacturers, which were partially offset by a decrease in payroll payable.

Contract Liabilities

Contract liabilities represent our obligation to transfer goods or services to customers for which we have received consideration from our customers. Our contract liabilities primarily consist of (i) advances from customers for purchasing new automobiles; and (ii) deferred revenue, which mainly represents the unused gift cards or coupons in connection with our repair and maintenance services. The gift cards, which are generally valid for one year, are granted to our customers for our after-sales services when they purchase new automobiles from our 4S dealership stores. The amount of such prepaid gift cards is recorded to deferred revenue when we grant to customers and will be recognized to revenue upon use of such prepaid gift cards for our after-sales services or upon expiration. We also sell coupons, which generally do

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not specify the expiration date, to customers for our repair and maintenance services. The amount of such coupons is firstly recorded to deferred revenue when customers purchase the coupons and subsequently transferred to revenue when they use such coupons.

Our contract liabilities were RMB323.5 million, RMB309.8 million and RMB357.4 million as of December 31, 2018, 2019 and 2020, respectively. The fluctuations largely related to the timing of delivery of automobiles and our services, and the status as of the respective dates.

Tax Payable

Our tax payable decreased by 72.8% from RMB65.1 million as of December 31, 2018 to RMB17.7 million as of December 31, 2019, primarily because we received approximately RMB114.9 million taxable compensation from a lawsuit in 2018 relating to land use rights of certain of our properties in Beijing. Our tax is payable every quarter and our tax payable is calculated based on taxable profit for the preceding quarter. Our tax payable increased by 152.6% from RMB17.7 million as of December 31, 2019 to RMB44.7 million as of December 31, 2020, primarily due to the increase in our taxable profits for the year ended December 31, 2020.

Non-current Assets

Goodwill

Goodwill acquired through business combinations has been allocated to the relevant 4S dealership business (or group of 4S dealership business) from which the goodwill resulted. The 4S dealership business is treated as a cash-generating unit (“CGU”) for impairment testing. As of December 31, 2018, 2019 and 2020, the carrying amount of goodwill allocated to the CGU of the operation of 4S dealership business was RMB199.7 million, RMB199.7 million and RMB210.4 million, respectively. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by our senior management.

The key assumptions of the cash flow projections are as follows:

- Revenue from the sale and service of automobiles — the bases used to determine the future earnings of sale and service of automobiles are the historical sales and the average growth rate of similar 4S dealership stores of our Group over the past years. The range of annual revenue growth rate within the five-year period at the end of 2018, 2019 and 2020 is primarily from -3.34% to 12.77%. The growth rate used to extrapolate the cash flows of the CGU beyond the five-year period from the end of each of the years is 3%.

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- Operating expenses — the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortization and other operating expenses. The values assigned to the key assumptions reflect past experience and our management's commitment to maintaining its operating expenses at an acceptable level.
- Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant unit. The discount rates applied to the cash flow projections beyond the one-year period are 16.89%, 16.91% and 16.75% to 18.03% as of December 31, 2018, 2019 and 2020, respectively.

The values assigned to key assumptions on revenue from the sale and service of automobiles, operating expenses and discount rates are consistent with external information sources.

The table below sets forth details of the headroom measured by excess of the recoverable amounts over the carrying amounts of the CGU as of December 31, 2018, 2019 and 2020:

| | As of December 31, | | |
|----------------------------------|---------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 4S dealership business | 254,029 | 261,404 | 527,431 |

We have undertaken a sensitivity analysis on the impairment test of goodwill. The following table sets forth the hypothetical changes to discount rate or annual revenue that would, in isolation, have removed the remaining headroom as of December 31, 2018, 2019 and 2020:

| | As of December 31, | | |
|--------------------------------------|---------------------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| Increase in discount rate | 2.13% | 2.37% | 5.30% |
| Annual revenue decrease by | 4.85% | 5.61% | 8.88% |

At the end of 2018, 2019 and 2020, our Directors considered no reasonably possible change in the key assumptions mentioned above would cause the carrying amounts of the CGU to exceed their recoverable amounts and there was no impairment of CGU as of December 31, 2018, 2019 and 2020.

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Intangible Assets

Our intangible assets primarily include (i) the information technology systems and software we used for our business operations; and (ii) the dealership agreements that we entered into with various automobile manufacturers. The net carrying amount of our intangible assets decreased from RMB561.9 million as of December 31, 2018 to RMB541.0 million as of December 31, 2019, primarily due to the effect of amortization. The net carrying amount of our intangible assets increased from RMB541.0 as of December 31, 2019 to RMB549.1 million, primarily because we acquired Laifu Auto, which entered into a dealership agreement with the manufacturer of Jaguar-Land Rover. See note 17 to the Accountants' Report set out in Appendix I to this prospectus for additional information on how we account for intangible assets.

WORKING CAPITAL

Our future working capital requirements will depend on a number of factors, including but not limited to, our operating income, the cost of purchasing new automobiles, spare parts, accessories and other automobile-related products from our suppliers and the cost of hiring additional personnel and staff. We intend to continue to finance our working capital with cash generated from our operations, bank loans and other borrowings, the net proceeds from the Global Offering and other funds raised from the capital markets from time to time.

Taking into account the financial resources available to our Group, including our cash balance, cash flow from operating activities, bank loans and other borrowings and the estimated net proceeds from the Global Offering, our Directors are of the view that, after due and careful inquiry, our Group has sufficient available working capital for our present requirements for at least the next 12 months from the date of this prospectus.

Except as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our liquidity. See "Future Plans and Use of Proceeds" in this prospectus for details of the funds necessary to meet our existing operations and to fund our future plans.

LIQUIDITY AND CAPITAL RESOURCES

We operated in a capital-intensive industry and our primary uses of cash are to fund our working capital requirements, the cost of purchasing automobiles from automobile manufacturers and purchasing spare parts, accessories and other automobile-related products. During the Track Record Period, we have funded our operations principally with cash generated from our operations and bank loans. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings, net proceeds from the Global Offering and other funds raised from the capital markets from time to time.

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Cash Flows Analysis

The table below sets forth our cash flows for the years indicated:

| | Year Ended December 31, | | |
|---|--------------------------------|----------------|------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash flows from operating activities . . | 607,631 | 520,732 | 790,295 |
| Net cash flows from/(used in) investing activities | 59,047 | (65,304) | (145,594) |
| Net cash flows used in financing activities | (743,471) | (330,169) | (788,546) |
| Net (decrease)/increase in cash and cash equivalents | (76,793) | 125,259 | (143,845) |
| Cash and cash equivalents at beginning of year | 326,107 | 249,315 | 374,721 |
| Effect of foreign exchange rate changes, net | 1 | 147 | (204) |
| Cash and cash equivalents at end of year | 249,315 | 374,721 | 230,672 |

Net Cash Flows from Operating Activities

For the year ended December 31, 2020, our net cash generated from operating activities was RMB790.3 million, which was primarily attributable to (i) our profit before tax of RMB420.2 million; (ii) positive total adjustments before movements in working capital of RMB171.4 million mainly as a result of RMB64.9 million positive adjustment for depreciation of property, plant and equipment, RMB57.4 million positive adjustment for depreciation of right-of-use assets and positive adjustments of RMB41.1 million for finance costs in connection with interests on bank and other borrowings; (iii) positive movements of RMB274.6 million in working capital, primarily reflecting a decrease of RMB217.6 million in inventories, primarily due to our efforts to reduce our inventory level to improve our operating efficiency and to maintain an optional turnover rate of our inventories, an increase of RMB62.6 million in trade and bills payables and a decrease of RMB25.5 million in trade receivables, partially offset by an increase of RMB79.5 million in prepayments, other receivables and other assets mainly reflecting the increases in prepayments for procuring new automobiles, spare parts and accessories from automobile manufacturers and an increase in rebate receivables, and an increase of RMB7.2 million in amounts due from related parties; (iv) RMB2.5 million of interest received; and (v) RMB78.4 million of income tax paid.

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For the year ended December 31, 2019, our net cash generated from operating activities was RMB520.7 million, resulting from (i) our profit before tax of RMB330.2 million; (ii) positive total adjustments before movements in working capital of RMB188.7 million, primarily reflecting RMB56.2 million positive adjustment for finance costs primarily attributable to the interest on bank and other borrowings, RMB59.9 million positive adjustment for depreciation of property, plant and equipment and RMB54.9 million positive adjustment for depreciation of right-of-use assets; (iii) positive movements of RMB131.7 million in working capital, primarily comprising a decrease of RMB123.8 million in inventories, a decrease of RMB76.4 million in prepayments, other receivables and other assets as a result of the decreases in prepayments we made to manufacturers for purchasing new automobiles and rebates receivables from manufacturers so as to improve the efficiency of our working capital management, and a decrease of RMB9.3 million in amounts due from related parties, partially offset by a decrease of RMB49.4 million in other payables and accruals as a result of the settlements made during the year; (iv) RMB5.8 million of interest received; and (v) RMB135.6 million of income tax paid.

For the year ended December 31, 2018, our net cash generated from operating activities was RMB607.6 million, which was primarily attributable to (i) our profit before tax of RMB427.0 million; (ii) positive total adjustments before movements in working capital of RMB214.0 million mainly as a result of RMB83.5 million positive adjustment for finance costs, RMB76.1 million positive adjustment for depreciation of property, plant and equipment, RMB35.0 million in depreciation of right-of-use assets and RMB23.0 million in amortization of intangible assets; (iii) positive movements of RMB50.7 million in working capital, primarily reflecting a decrease of RMB141.9 million in amounts due from related parties, an increase of RMB10.5 million in other payables and accruals, and a decrease of RMB104.3 million in prepayments, other receivables and other assets, partially offset by a decrease of RMB183.3 million in amounts due to related parties and an increase of RMB86.9 million in inventories as a result of the estimated demands in the first quarter of 2019 and the addition of a new 4S dealership store for Volvo in Beijing; (iv) RMB9.3 million of interest received; and (v) RMB93.4 million of income tax paid.

Net Cash Flows Used in or Generated from Investing Activities

For the year ended December 31, 2020, our net cash used in investing activities was RMB145.6 million, which was primarily attributable to (i) RMB4,023.7 million used in purchases of financial assets at fair value through profit or loss; (ii) RMB142.0 million of advances of loans to related parties; (iii) RMB129.5 million used to purchase items of property, plant and equipment; and (iv) RMB59.0 million used for disposal of subsidiaries, partially offset by RMB3,792.2 million of proceeds from disposal of financial assets at fair value through profit or loss, RMB242.0 million of repayment of loans from related parties and RMB77.4 million of proceeds from disposal of property, plant and equipment.

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For the year ended December 31, 2019, our net cash used in investing activities was RMB65.3 million, which was primarily attributable to (i) RMB2,066.9 million used in purchases of financial assets at fair value through profit or loss; (ii) RMB140.6 million used to purchase property, plant and equipment; and (iii) RMB154.5 million of advances of loans to related parties, partially offset by RMB2,055.8 million of proceeds from disposal of financial assets at fair value through profit or loss and RMB138.5 million of repayment of loans from related parties.

For the year ended December 31, 2018, our net cash generated from investing activities was RMB59.0 million, which was primarily attributable to (i) RMB3,634.5 million of proceeds from disposal of financial assets at fair value through profit or loss; and (ii) RMB73.8 million of proceeds from disposal of property, plant and equipment, partially offset by RMB3,548.2 million used to purchase financial assets at fair value through profit or loss and RMB107.1 million used to purchase property, plant and equipment.

Net Cash Flows Used in Financing Activities

For the year ended December 31, 2020, our net cash used in financing activities was RMB788.5 million, which was primarily attributable to (i) RMB1,270.4 million of repayment of bank and other borrowings; (ii) RMB100.0 million of dividends paid to the non-controlling shareholders of Chengdu Jinbao and Chengdu Xinbao; and (iii) RMB39.5 million of payment of lease liabilities, partially offset by RMB649.0 million of proceeds from new bank and other borrowings.

For the year ended December 31, 2019, our net cash used in financing activities was RMB330.2 million, which was primarily attributable to (i) RMB1,381.0 million of repayment of bank and other borrowings; (ii) RMB53.8 million of increase in interests paid in connection with our bank and other borrowings; (iii) RMB46.0 million of dividends paid to non-controlling shareholders of Chengdu Jinbao and Chengdu Xinbao; and (iv) RMB33.8 million used in payment of lease liabilities, partially offset by RMB1,159.0 million of proceeds from new bank and other borrowings.

For the year ended December 31, 2018, our net cash used in financing activities was RMB743.5 million, which was primarily attributable to (i) RMB3,342.0 million of repayment of bank and other borrowings; (ii) a decrease of RMB86.0 million in interests paid in connection with our bank and other borrowings; (iii) RMB20.0 million of dividends paid to non-controlling shareholders of Chengdu Jinbao and Chengdu Xinbao; and (iv) RMB9.9 million used to pay the lease liabilities, partially offset by RMB2,711.2 million of proceeds from new bank and other borrowings.

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CAPITAL EXPENDITURES

For the years ended December 31, 2018, 2019 and 2020, our capital expenditure was RMB107.6 million, RMB142.9 million and RMB129.5 million, respectively. Our capital expenditures during the Track Record Period primarily related to our purchases of items of property, plant and equipment, additions to intangible assets and acquisition deposit we paid. We have funded these capital expenditures primarily with cash generated operations and proceeds from bank and other borrowings.

We expect to incur capital expenditures of RMB220.5 million for the year ending December 31, 2021, primarily to finance the purchase of items of property, plant and equipment, additions to intangible assets and acquisition of a subsidiary. We currently expect to fund these capital expenditures primarily with cash generated from our operations, net proceeds from the Global Offering and/or bank borrowings.

CONTRACTUAL COMMITMENTS

We had capital commitments in relation to property, plant and equipment, intangible assets and acquisition of a subsidiary as of the dates indicated:

| | As of December 31, | | |
|---|--------------------|--------------|--------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Contracted but not provided for: | | | |
| Property, plant and equipment | – | 2,423 | 8,629 |
| Intangible assets | 2,208 | – | — |
| Total | 2,208 | 2,423 | 8,629 |

INDEBTEDNESS

Interest-bearing Bank and Other Borrowings

We obtain loans and borrowings from banks and other financial institutions to finance our business operations and to fulfill working capital requirements. Other borrowings primarily represent the loans that we obtained from two manufacturer-designated financing companies for the procurement of automobiles. Our outstanding bank loans and other borrowings as of December 31, 2018, 2019 and 2020 were RMB1,168.3 million, RMB946.3 million and RMB326.1 million, respectively. As of April 30, 2021 being the latest practicable date for determining our indebtedness, the outstanding balance of our interest-bearing bank and other borrowings was RMB287.6 million.

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The table below sets forth details of our bank and other borrowings as of the dates indicated:

| | As of December 31, | | | As of |
|--|-------------------------|-----------------------|-----------------------|--|
| | 2018 | 2019 | 2020 | April 30, |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | 2021 <i>RMB'000</i> <i>(Unaudited)</i> |
| Current | | | | |
| Bank loans | | | | |
| – Secured | 629,610 | 444,700 | 118,873 | 151,967 |
| – Unsecured | 348,000 | 441,806 | 158,412 | 65,095 |
| Other borrowings | | | | |
| – Secured | 49,823 | 59,776 | 48,821 | 70,496 |
| Current portion of long term bank loans | | | | |
| – Secured | 104,140 | – | – | – |
| | <u>1,131,573</u> | <u>946,282</u> | <u>326,106</u> | <u>287,558</u> |
| Non-current | | | | |
| Bank loans | | | | |
| – Unsecured | 36,700 | – | – | – |
| Total | <u>1,168,273</u> | <u>946,282</u> | <u>326,106</u> | <u>287,558</u> |

As of December 31, 2018, 2019 and 2020, certain of our bank loans and other borrowings were secured by (i) mortgages over our prepaid land lease payments in China, which had an aggregate carrying amount of approximately RMB55.6 million, RMB53.8 million and RMB21.7 million, respectively; (ii) mortgages over our buildings, which had an aggregate carrying amount of approximately RMB96.1 million, RMB27.9 million and RMB21.7 million, respectively; (iii) mortgages over our inventories, which had an aggregate carrying amount of approximately RMB109.0 million, RMB95.6 million and RMB143.1 million, respectively; and (iv) mortgages over the deposits, which had an aggregate carrying amount of approximately RMB66.6 million, RMB32.9 million and RMB25.5 million, respectively. As of December 31, 2018, certain of our bank loans and other borrowings were secured by mortgages over the entire shares of our subsidiaries, including Tianjin BetterLife Auto, Beijing BetterLife Star, Beijing BetterLife International and Hangzhou BetterLife.

As of December 31, 2018 and 2019, we had bank loans of approximately RMB853.5 million and RMB199.8 million, respectively, which were guaranteed by Mr. Chou, our Controlling Shareholder. As of December 31, 2020, all abovementioned guarantees were released. As of December 31, 2018, our bank loans of approximately RMB30.0 million were guaranteed by related parties and the bank loans were repaid in full in 2019. As of December 31, 2018 and 2019, we had other borrowings of RMB30.3 million and RMB23.1 million, respectively, which were guaranteed by certain third parties. The guarantees had been released as of December 31, 2020.

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Our interest-bearing bank loans and borrowing bore an effective interest rate ranging from 4.35% to 7.1% per annum as of December 31, 2018, ranging from 4.79% to 7.1% per annum as of December 31, 2019 and ranging from 3.9% to 7.6% per annum as of December 31, 2020.

Our bank loans and other borrowings as of April 30, 2021 were RMB287.6 million. As of April 30, 2021, we had unutilized banking facilities of RMB1,077.0 million.

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 we did not experience any unusual difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Lease Liabilities

As of December 31, 2018, 2019 and 2020, we recorded total lease liabilities of RMB116.5 million, RMB137.4 million and RMB144.9 million, respectively. As of April 30, 2021, being the latest practicable date for determining our indebtedness, the balance of lease liabilities was RMB115.3 million.

Sale and Lease-back Liabilities

During the Track Record Period, we sold automobiles to eCapital, which were leased back by our Group to use as test-drive automobiles. As of December 31, 2018, 2019 and 2020, sale and lease-back liabilities due to this related party was RMB5.6 million, RMB6.2 million and RMB8.9 million, respectively. As of April 30, 2021, being the latest practicable date for determining our indebtedness, amounts due to eCapital in connection with such sale and lease-back transactions was RMB7.7 million.

In addition, we provided guarantees for banks and financial institutions in connection with facilities granted to eCapital, which amounted to RMB383.9 million and RMB85.2 million as of December 31, 2018 and 2019, respectively. The guarantees had been released as of December 31, 2020.

Statement of Indebtedness

Except as disclosed above, during the Track Record Period and up to April 30, 2021, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees. Our Directors confirm that there has not been any material change in our indebtedness since April 30, 2021.

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CONTINGENT LIABILITIES

During the Track Record Period, we did not have any significant contingent liabilities. As of the Latest Practicable Date, we did not have any unrecorded significant contingent liabilities, guarantees or any material litigation against us.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time.

During the Track Record Period, we entered into various property leasing agreements with Oule (Hangzhou) Automobile Technology Co., Ltd. (歐樂(杭州)汽車科技有限公司), Beijing Zhoushi, Beijing Zhoushi Xingye International Trading Co., Ltd. (北京周氏興業國際貿易有限公司), Tianjin Guomao and Sichuan Chuanwu Automobile Import and Export Trade Corporation (四川省川物汽車進出口貿易總公司) and Chengdu Riyue Industrial Development Co., Ltd. (成都日月產業發展股份有限公司) and recorded lease liabilities during the Track Record Period. For the years ended December 31, 2018, 2019 and 2020, our total lease payments to these related parties amounted to RMB4.3 million, RMB27.9 million and RMB31.8 million, respectively.

During the Track Record Period, Beijing Xiaobo Technology Co., Ltd. (北京小波科技有限公司) provided information technology support services to us. For the years ended December 31, 2018, 2019 and 2020, our payments to Beijing Xiaobo Technology Co., Ltd. in connection with such services amounted to RMB10.0 million, RMB6.8 million and RMB11.5 million, respectively.

During the Track Record Period, we sold automobiles to eCapital, which provided financial lease services to the ultimate automobile purchasers. For the years ended December 31, 2018, 2019 and 2020, sales to eCapital in connection with such arrangement amounted to RMB54.3 million, RMB52.5 million and RMB46.3 million, respectively.

During the Track Record Period, we also sold automobiles to eCapital, which were leased back by our Group to use as test-drive automobiles. The proceeds from the sale and lease-back transactions amounted to approximately RMB9.9 million, RMB12.0 million and RMB16.9 million for the years ended December 31, 2018, 2019 and 2020, respectively. Lease payments of the sale and lease-back transactions amounted to approximately RMB7.9 million, RMB12.5 million and RMB15.3 million for the years ended December 31, 2018, 2019 and 2020, respectively. The annual interest rates for the sale and lease-back transactions ranged from 11.78% to 18.39%. As of December 31, 2018, 2019 and 2020, sale and lease-back liabilities

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with eCapital were RMB5.6 million, RMB6.2 million and RMB8.9 million, respectively. In addition, rental fees of utilizing the license plates owned by eCapital were RMB0.5 million, RMB0.9 million and RMB2.7 million for the years ended December 31, 2018, 2019 and 2020, respectively.

In addition, we had an interest-bearing principal balance due from eCapital, which amounted to RMB84.0 million, RMB50.0 million as of December 31, 2018 and 2019, respectively, with an annual interest rate of 7.0%. It was unsecured and has been fully settled as of December 31, 2020. In addition, we had a non-interest bearing principal balance due from Beijing Zhoushi, which amounted to RMB50.0 million as of December 31, 2019 and 2020, respectively. It is unsecured and has no fixed terms of repayment, and the loan was fully repaid in 2020. Except for the receivables and the sale and lease-back liabilities described above, other balances with related parties are unsecured, non-interest bearing and have no fixed terms of repayment. See note 40 to the Accountants' Report in Appendix I to this prospectus for details.

Our Directors are of the view that the transactions set out in note 40 to the Accountants' Report in Appendix I to this prospectus were conducted in the ordinary course of our business on terms negotiated at arm's length and comparable to those offered by the Independent Third Parties and did not distort our results of operations or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated:

| | As of/For the Year Ended December 31, | | |
|---|---------------------------------------|-------|-------|
| | 2018 | 2019 | 2020 |
| Profitability ratios | | | |
| Gross profit margin ⁽¹⁾ | 9.8% | 9.6% | 10.1% |
| Net profit margin ⁽²⁾ | 3.2% | 2.7% | 3.6% |
| Return on assets ⁽³⁾ | 7.9% | 6.8% | 10.1% |
| Return on equity ⁽⁴⁾ | 20.6% | 15.2% | 18.1% |
| Liquidity ratio | | | |
| Current ratio ⁽⁵⁾ | 1.1 | 1.2 | 1.6 |
| Quick ratio ⁽⁶⁾ | 0.6 | 0.8 | 1.1 |
| Capital adequacy ratios | | | |
| Debt to equity ratio ⁽⁷⁾ | 89.0% | 63.8% | 19.2% |
| Net debt to equity ratio ⁽⁸⁾ | 64.1% | 34.8% | 3.8% |

Notes:

(1) Gross profit margin equals our gross profit divided by revenue for the year.

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- (2) Net profit margin equals our net profit after tax divided by revenue for the year.
- (3) Return on assets equals net profit for the year divided by total assets as of the end of the year.
- (4) Return on equity equals net profit for the year divided by total equity amounts as of the end of the year.
- (5) Current ratio equals our total current assets divided by the total current liabilities as of the end of the year.
- (6) Quick ratio equals the total current assets less inventories and divided by the total current liabilities as of the end of the year.
- (7) Debt to equity ratio equals total debt as of the end of the year divided by total equity as of the end of the same year. Total debt includes all interest-bearing bank loans and other borrowings.
- (8) Net debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents, pledged deposits and cash in transit at the end of the year divided by total equity at the end of the same year.

Analysis of Key Financial Ratios

Return on Assets

Our return on assets was 7.9%, 6.8% and 10.1% for the years ended December 31, 2018, 2019 and 2020, respectively. Our return on total assets decreased from 2018 to 2019 mainly attributable to the one-off compensation income of approximately RMB114.9 million recorded in 2018. Our return on assets increased to 10.1% for the year ended December 31, 2020, primarily due to the increase of our net profit margin.

Return on Equity

Our return on equity was 20.6%, 15.2% and 18.1% for the years ended December 31, 2018, 2019 and 2020, respectively. Our return on equity decreased from 2018 to 2019, primarily due to the one-off compensation income of approximately RMB114.9 million recorded in 2018. Our return on equity increased to 18.1% for the year ended December 31, 2020, mainly due to the increase of our net profit margin.

Current Ratio

Our current ratio increased from 1.1 as of December 31, 2018 to approximately 1.2 as of December 31, 2019 and further increased to 1.6 as of December 31, 2020, primarily due to the repayment of bank loans and other borrowings and the increase of equity due to net profits achieved for the years ended December 31, 2019 and 2020.

Quick Ratio

Our quick ratio was 0.6 and 0.8 as of December 31, 2018 and 2019, respectively, which remained relatively stable. It further increased to 1.1 as of December 31, 2020, primarily due to the repayment of bank loans and other borrowings and the increase of equity due to net profits achieved for the year ended December 31, 2020.

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Debt to equity Ratio

Our debt to equity ratio decreased from 89.0% as of December 31, 2018 to approximately 63.8% as of December 31, 2019 and further decreased to 19.2% as of December 31, 2020, primarily due to the repayment of bank loans and other borrowings during the years.

Net Debt to Equity Ratio

Our net debt to equity ratio decreased from approximately 64.1% as of December 31, 2018 to 34.8% as of December 31, 2019 and further decreased to 3.8% as of December 31, 2020, primarily due to the repayment of bank loans and other borrowings and the increase of cash and equity due to net profits achieved for the years ended December 31, 2019 and 2020.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk in the normal course of our Group's business. Our Group's exposure to these risks and financial risk management policies and practices used by our Group to manage these risks are described below. For further details of these risks, see note 43 to the Accountants' Report in Appendix I to this prospectus.

Credit Risk

We only trade with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our other financial assets, which primarily consist of cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since we only trade with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by the customer or counterparty by geographical region and industry sector. There are no significant concentrations of credit risk within our Group as the customer bases of our trade receivables are widely dispersed in different sectors and industries.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due.

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We monitor the risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both our financial instruments and financial assets (such as trade receivables) and projected cash flows from operations.

Interest Rate Risk

We have no significant interest-bearing assets other than pawn receivables, pledged deposits and cash and cash equivalents. Our interest rate risk primarily arises from our borrowings, details of which are set out in note 43 of the Accountants' Report in Appendix I to this prospectus. Borrowings at variable rates expose us to the risk of changes on market interest rates. We had not used any interest rate swaps to hedge our exposure to interest rate risk. Our exposure to the risk of changes in market interest rates primarily relates to our debt obligations with a floating interest rate.

Foreign Currency Risk

Our businesses are principally conducted in RMB. Accordingly, our Directors consider our exposure to foreign currency risk is insignificant.

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries. The relevant PRC laws require a foreign-invested enterprise to make up for its accumulative losses out of its after-tax profits and allocate at least 10% of its remaining after-tax profits, if any, to fund its statutory reserves until the aggregate amount of its statutory reserves exceeds 50% of its registered capital. As of December 31, 2018, 2019 and 2020, the balance of our statutory reserves was RMB136.3 million, RMB145.9 million and RMB159.0 million, respectively. For the years ended December 31, 2018, 2019 and 2020, our net profit was RMB270.2 million, RMB224.9 million and RMB306.5 million, respectively, while the amount of after-tax profits we transferred to the statutory reserves was RMB14.3 million, RMB9.6 million and RMB13.1 million, respectively, primarily because during the Track Record Period (i) certain of our PRC subsidiaries have contributed statutory reserves up to 50% or more of their registered capital at the beginning of the year or prior to the Track Record Period so that no further transfers to statutory reserves are required; and (ii) certain of our PRC subsidiaries incurred net losses or accumulative losses during the year and they did not need to make contributions to their statutory reserves.

FINANCIAL INFORMATION

The table below sets forth details in relation to the allocation of statutory reserves of our PRC subsidiaries during the Track Record Period:

| | Year Ended December 31, | | |
|---|---|--|---|
| | 2018 | 2019 | 2020 |
| PRC subsidiaries that needed to allocate after-tax profits to fund statutory reserves⁽¹⁾ . . . | Beijing BetterLife Group, Yiwei Diandang, Beijing BetterLife Auto, Beijing BetterLife Used Auto, Tianjin Laifutai, Chengdu Jinbao and Chengdu Xinbao | Beijing BetterLife Group, Yiwei Diandang, Beijing BetterLife Auto, Beijing BetterLife Used Auto, Tianjin Laifutai | Beijing BetterLife Group, Yiwei Diandang, Qingdao BetterLife Auto, Beijing BetterLife Used Auto and Qingdao BetterLife Trade |
| PRC subsidiaries that have contributed statutory reserves up to 50% or more of their registered capital at the beginning of the year or prior to the Track Record Period so that no further allocations are required⁽²⁾ | Beijing BetterLife Star, Tianjin BetterLife Auto and Tianjin Liya | Beijing BetterLife Star, Tianjin BetterLife Auto, Tianjin Liya, Chengdu Jinbao and Chengdu Xinbao | Beijing BetterLife Star, Tianjin BetterLife Auto, Tianjin Liya, Chengdu Jinbao, Chengdu Xinbao, Beijing BetterLife Auto and Beijing BetterLife Auto Trade |
| PRC subsidiaries that did not need to allocate statutory reserves⁽³⁾ . . . | Beijing Zhoushi, Tianjin Guomao, Beijing BetterLife International, Beijing BetterLife Auto Trade, Qingdao BetterLife Service, BetterLife Service, Qingdao BetterLife Sales, Hangzhou BetterLife, Weifang BetterLife, BetterLife, BetterLife Tianjin, Beijing BetterLife Experimental and Yiwei Cultural | Beijing BetterLife International, Beijing BetterLife Auto Trade, Qingdao BetterLife Service, Qingdao BetterLife Sales, Hangzhou BetterLife, Weifang BetterLife, BetterLife Tianjin, Beijing BetterLife Experimental, Yiwei Cultural and Qingdao Betterlife Trade | Laifu Auto, Qingdao BetterLife Sales, Tianjin Laifutai, Beijing BetterLife International, Qingdao BetterLife Service, Hangzhou BetterLife, Weifang BetterLife, BetterLife, BetterLife Tianjin, Beijing BetterLife Experimental and Yiwei Cultural |

FINANCIAL INFORMATION

Notes:

- (1) For the years ended December 31, 2018, 2019 and 2020, the total after-tax profits derived from these PRC subsidiaries were RMB290.1 million, RMB60.6 million and RMB23.2 million, respectively. The amount of statutory reserves contributed by certain of our PRC subsidiaries during the Track Record Period was less than 10% of their after-tax profits for the year, primarily because a less than 10% of contribution has already reached the required cap for statutory reserves, namely 50% of their registered capital.
- (2) For the years ended December 31, 2018, 2019 and 2020, the total after-tax profits derived from these PRC subsidiaries were RMB97.7 million, RMB241.6 million and RMB324.2 million, respectively.
- (3) These PRC subsidiaries did not need to allocate any statutory reserves during the Track Record Period primarily because they incurred net losses or accumulative losses during the year. For the years ended December 31, 2018, 2019 and 2020, the aggregate net losses recorded by these PRC subsidiaries were RMB115.0 million, RMB77.4 million and RMB24.5 million, respectively.

For the year ended December 31, 2018, four of our PRC subsidiaries, namely Beijing BetterLife Group, Yiwei Diandang, Beijing BetterLife Auto and Beijing BetterLife Used Auto failed to allocate after-tax profits in full to fund their statutory reserves. For the year ended December 31, 2019, Beijing BetterLife Group, BetterLife Used Auto and Tianjin Laifutai failed to allocate after-tax profits in full to fund their statutory reserves. We have made up the contributions for these PRC subsidiaries in 2019 or 2020. Based on our confirmations and actions on the above-mentioned historical transfers to the statutory reserves of our PRC subsidiaries, our PRC Legal Advisor confirmed that the amounts of after-tax profits transferred to our statutory reserves during the Track Record Period were in compliance with the applicable PRC laws and regulations.

Any amount of dividend we pay 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 which our Directors consider relevant. Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents and the Companies Act. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board. Historically, other than the dividends of RMB20.0 million, RMB46.0 million and RMB100.0 million paid to non-controlling shareholders of Chengdu Jinbao and Chengdu Xinbao for the years ended December 31, 2018, 2019 and 2020, respectively, we have not declared or paid any dividend to our Shareholder and there is no assurance that dividends of any amount will be declared or be distributed in any year. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio.

FINANCIAL INFORMATION

LISTING EXPENSES

We expect to incur a total of RMB54.0 million of listing expenses (assuming an Offer Price of HK\$4.40, being the mid-point of the indicative Offer Price range between HK\$4.00 and HK\$4.80, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, which represents approximately 9.8% of the gross proceeds from the Global Offering. For the years ended December 31, 2018, 2019 and 2020, we incurred RMB35.7 million as listing expenses, of which approximately RMB26.9 million had been charged to our consolidated statements of profit or loss as administrative expenses and approximately RMB8.8 million will be capitalized upon the Listing. We expect to incur listing expenses of RMB18.3 million for the year ending December 31, 2021, of which approximately RMB6.2 million will be charged to our consolidated statements of profit or loss for the year ending December 31, 2021 and approximately RMB12.1 million will be capitalized upon the Listing. Listing expenses represent professional fees and other fees incurred in connection with the Listing, including underwriting commissions. The listing expenses above are the best estimate as of the Latest Practicable Date and for reference only and the actual amount may differ from this estimate. We do not expect such listing expenses to have a material impact on our results of operations for the year ending December 31, 2021.

DISTRIBUTABLE RESERVES

Our Company has no reserve available for distribution to the Shareholders as of December 31, 2020 and up to the Latest Practicable Date.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since December 31, 2020, being the date on which our latest reviewed consolidated financial statements were prepared, and there is no event since December 31, 2020 which would materially affect the information as set out in the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for inclusion in Investment Circulars” issued by Hong Kong Institute of Certified Public Accountants for illustration purpose only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the equity shareholders of our Company as of December 31, 2020 as if the Global Offering had taken place on December 31, 2020.

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of December 31, 2020 or any future date.

| | Consolidated net tangible assets attributable to owners of our Company as of December 31, 2020 ⁽¹⁾ | Estimated net proceeds from the Global Offering ⁽²⁾ | Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company as of December 31, 2020 | Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share as of December 31, 2020 ⁽³⁾⁽⁴⁾⁽⁵⁾ | |
|--|---|---|---|---|-------------|
| | <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\$4.00 per Share | 808,068 | 471,795 | 1,279,863 | 2.13 | 2.56 |
| Based on an Offer Price of HK\$4.80 per Share | 808,068 | 571,565 | 1,379,633 | 2.30 | 2.77 |

Notes:

- (1) The unaudited consolidated net tangible assets attributable to owners of our Company as of December 31, 2020 is extracted from the Accountants’ Report set out in Appendix I to this prospectus, which is based on the consolidated equity attributable to owners of our Company as of December 31, 2020 of approximately RMB1,528 million after deducting intangible assets attributable to owners of our Company and goodwill of RMB509.5 million and goodwill of RMB210.4 million, respectively.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$4.00 and HK\$4.80 per Offer Share, respectively, being the low-end and high-end prices of the stated Offer Price range, respectively, after deduction of the underwriting fees and other related expenses payable by our Company and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 600,000,000 Shares were in issue assuming that the Global Offering had been completed on December 31, 2020 and the respective Offer Price of HK\$4.00 and HK\$4.80 per Offer Share.
- (4) In connection with the preparation of the unaudited pro forma financial information, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share are converted into Hong Kong dollars at a rate of HK\$1 = RMB0.83148. No representation is made that the RMB amounts have been, could have been or may be converted into Hong Kong dollar, or vice versa at that rate.
- (5) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2020.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$627.4 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial Offer Price of HK\$4.40 per Offer Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 75.0%, or HK\$470.6 million, is expected to be used primarily for expanding our dealership store network through organic growth and, if suitable opportunities arise, through selective acquisitions. In particular:
 - We expect to use 45.0%, or HK\$282.3 million, for acquiring other automobile dealership stores in tier-one and tier-two cities in the Yangtze River Delta and the Greater Bay Area in Guangdong province, as well as in the rest of the top ten provincial regions in terms of the number of high-net-worth individuals in China for 2020, namely Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Hubei, Fujian and Tianjin, since these areas have a large number of high-net-worth individuals, which had shown significant growth potential in terms of demand for luxury and ultra-luxury automobiles, according to the Frost & Sullivan Report. We intend to acquire dealership stores that operate luxury and ultra-luxury brands, which include, among others, Porsche, Mercedes-Benz, BMW, Audi, Volvo, Jaguar-Land Rover, Bentley and Rolls-Royce. Specifically, we plan to acquire three to four 4S dealership stores in Beijing, Nanjing and Suzhou that operate brands of Mercedes-Benz and Jaguar-Land Rover using the proceeds from the Global Offering.

According to the Frost & Sullivan Report, in 2020 there were approximately 2,700 4S dealership stores that operated luxury and ultra-luxury brands in tier-one and tier-two cities in China, which in the opinion of our Directors, may potentially be our acquisition targets. In particular, we intend to look for suitable targets in Beijing, Shanghai, Guangzhou, Shenzhen, Zhuhai, Chengdu, Chongqing, Hangzhou, Nanjing and Suzhou. According to the Frost & Sullivan Report, there were 123, 113, 67, 77, 14, 63, 43, 59, 48 and 49 dealership stores that operated the abovementioned luxury and ultra-luxury brands in the abovementioned cities as of April 30, 2021. We consider such dealership stores

FUTURE PLANS AND USE OF PROCEEDS

as our potential acquisition targets because such brands and locations are consistent with our future expansion and development strategies. We will conduct the due diligence on the potential acquisition targets based on our selection parameters and we believe we will most likely find the desired acquisition targets in above potential targets. As of the Latest Practicable Date, we had not identified any definitive acquisition target or confirmed the number of dealership stores to be acquired or the timeframe involved. We had not entered into any legally binding agreement with respect to the acquisition of other dealership stores. We are in the preliminary stage of evaluating potential opportunities and have yet to complete any concrete feasibility studies.

The size and scale of each target for future acquisitions may vary on a case-by-case basis and we generally do not have any specific requirement for their business scale. We primarily intend to acquire the majority or controlling shareholding of the target company and install our own management team to take over the operations. For each acquired dealership store, we need to obtain the authorization from the respective automobile manufacturer and enter into a new dealership agreement. In selecting suitable targets, we will take into account various parameters, including but not limited to, the existing customer base, the local penetration rate of passenger vehicles and the expected payback and breakeven periods of a target dealership store. For each acquisition, we and the target company typically submit an authorization transfer application along with (i) a three-year business plan of the dealership store to be acquired; (ii) the business license of our acquiring entity; and (iii) an equity transfer framework agreement to the automobile manufacturer for approval. Taking our Foshan Jaguar-Land Rover dealership store as an example, it took the manufacturer approximately half a month to review the application and grant its approval. Upon receiving the approval from the manufacturer, we can proceed to complete the equity transfer registration with the relevant government authorities. After completing the equity transfer registration, we apply to enter into a new dealership agreement with the manufacturer. Based on our past experience, we do not believe there is or will be any material impediments in obtaining the approval from automobile manufacturers in respect of the transfer of dealership authorization. See “Business — Our Strategies — Further expand our automobile dealership network and brand portfolio through organic growth and selective acquisitions” for details.

FUTURE PLANS AND USE OF PROCEEDS

- We expect to use 30.0%, or HK\$188.2 million, for opening new 4S dealership stores for the brands that we currently operate. For the locations, we will target tier-one and tier-two cities in China which are close to the cities where our existing 4S dealership stores are located, especially the Yangtze River Delta and the Greater Bay Area in Guangdong province, as well as the rest of the top ten provincial regions in terms of the number of high-net-worth individuals in China for 2020, namely Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Hubei, Fujian and Tianjin, according to the Frost & Sullivan Report. In particular, we intend to use the net proceeds to fund the establishment of three to four new dealership stores for Mercedes-Benz, Bentley and Jaguar-Land Rover in Beijing, Shanghai and Zhuhai, because (i) these cities are close to the areas where our existing dealership stores are located, which allow us to quickly integrate our resources, including sending experienced management personnel, to support the establishment of new dealership stores; (ii) these cities are among the top three regions in China where there are a large number of high-net-worth individuals with strong purchase power for luxury and ultra-luxury automobiles; and (iii) the sales performance and profitability of our existing dealership stores for Mercedes-Benz, Bentley and Jaguar-Land Rover grew rapidly during the Track Record Period, which had shown growth potential in market demand for these brands. During the Track Record Period, we successfully established two dealership stores for luxury brands, namely Volvo and Jaguar-Land Rover, in Beijing and Hangzhou, respectively. When we determine to establish a new dealership store, we may proactively communicate with the relevant automobile manufacturer to indicate our interests in opening a new dealership store in a particular region and formulate a proposal which sets out the background information of the operating entity, the track record of our Group in operating 4S dealership stores and a preliminary plan in relation to, among others, the properties or land to be used for the new dealership store and the expected timeline for the construction and renovation of the premises. The manufacturers have the ultimate discretion to decide the location of new dealership stores. Based on the size of our existing dealership stores, we expect the gross floor area of each new 4S dealership store to range between approximately 1,000 sq.m. and 13,000 sq.m. For each new 4S dealership store (assuming the gross floor area of approximately 7,000 sq.m., being the mid-point of the expected range of the gross floor area of a new dealership store), we expect the initial expenditure to be approximately RMB86.0 million, among which (i) approximately RMB56.0 million will be used for interior decoration; (ii) approximately RMB10.0 million will be used for purchasing and installing fixtures or other equipment; and (iii) approximately RMB20.0 million will be used for procuring initial inventory. For details, see “Business — Our Strategies — Further expand our automobile dealership network and brand portfolio through organic growth and selective acquisitions” for more information.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10.0%, or HK\$62.7 million, is expected to be used primarily for the renovation of our existing 4S dealership stores in order to improve customers' experience at our 4S dealership stores and enhance the quality of our after-sales services. In particular, from 2021 to 2022, we intend to renovate the showrooms of three of our 4S dealership stores, namely Beijing Yizhuang Porsche Center, Chengdu Airport Porsche Center and Beijing Haidian Mercedes-Benz. The table below sets forth the gross floor area of the showrooms that we expect to renovate and the estimated costs per sq.m. for each 4S dealership store:

| | Beijing Yizhuang Porsche Center | Chengdu Airport Porsche Center | Beijing Haidian Mercedes- Benz |
|--|--|---|---|
| Approximate gross floor area of the showrooms to be renovated (sq.m.) | 1,250 | 1,400 | 4,500 |
| Estimated costs per sq.m. (RMB) | 8,000 | 8,000 | 8,000 |
| Estimated total expenditure (RMB'000) | 10,000 | 11,200 | 36,000 |

In addition, from 2021 to 2022 we intend to renovate the repair and maintenance service workshops of our Chengdu Airport Porsche Center. The table below sets forth the gross floor area of the repair and maintenance service workshop that we expect to renovate and the estimated costs per sq.m. for this 4S dealership store:

| | Chengdu Airport Porsche Center |
|--|---|
| Gross floor area of the repair and maintenance service workshop to be renovated (sq.m.) | 671 |
| Estimated costs per sq.m. (RMB) | 8,000 |
| Estimated total expenditure (RMB'000) | 5,368 |

- approximately 5.0%, or HK\$31.4 million, is expected to be used primarily to optimize and upgrade our information technology systems, to enhance their functions, including our ERP system and other systems used for coupon management and internal expenses reimbursement. The estimated expenses that we intend to spend on maintenance and upgrade of our information technology systems each year will be approximately RMB12.0 million from 2021 to 2023; and

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10.0%, or HK\$62.7 million, is expected to be used to fund our working capital and general corporate purposes.

In the event that the Offer Price is set at the high-end or low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, we will receive net proceeds of approximately HK\$687.4 million and HK\$567.4 million, respectively. Under such circumstances, our intended use of proceeds will be increased or decreased on a pro-rata basis.

If the Offer Price is fixed at the high-end or low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, we will receive additional net proceeds of approximately HK\$108.0 million and approximately HK\$90.0 million, respectively. We intend to apply the additional net proceeds to the above uses on a pro rata basis.

The applications of the net proceeds as stated above are only current estimates and are subject to changes based on prevailing economic, market and business conditions. To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licensed banks and/or authorized financial institutions.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of options granted under the Share Option Scheme), Chou Dynasty, which is wholly-owned by Red Dynasty, will hold 450,000,000 Shares, representing 75% of the total issued Shares. Red Dynasty is in turn legally owned by the trustee of the Chou Family Trust for the benefit of the beneficiaries of the Chou Family Trust. Mr. Chou, being the settlor and protector of the Chou Family Trust, has the power to appoint and remove, and to amend the rights of, the trustee of the Chou Family Trust. Accordingly, Chou Dynasty, Red Dynasty and Mr. Chou are considered as our Controlling shareholders immediately after the Global Offering.

Competition

Each of our Controlling Shareholders confirmed that as of the Latest Practicable Date, he or it did not have any interest in a business which competes or is likely to compete (directly or indirectly) with the business of our Group.

As of the Latest Practicable Date, Mr. Chou, our Controlling Shareholder, currently held interests in certain companies outside of our Group, which are engaged in businesses including, financial leasing, information technology services, wholesale and retail, leasing, auction and investment holding businesses, which are in different industries and sectors from our Group.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that we are capable of carrying on our business independently from our Controlling Shareholders and his/its respective close associates after completion of the Global Offering:

Management Independence

Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Chou, a Controlling Shareholder, is the chairman of our Board, chief executive officer and an executive Director of our Company.

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his or her fiduciary duties as a director of our Company which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following the completion of the Global Offering.

Business and Operational Independence

Apart from the connected transactions set out in the sections head “Connected Transactions” and the related party transactions set out in note 40 of the Accountants’ Report set out in Appendix I to this prospectus, there were no business dealings or on-going business relationship between our Group and our Controlling Shareholders and his or its respective close associates. During the Track Record Period and up to the Latest Practicable Date, our Group has independent access to the sources of supplies for the provision of our 4S dealership services and has not relied on the supplies from the Controlling Shareholders and his or its respective close associates. We also have independent access to our customers, who are predominantly members of the public.

As disclosed in “Business — Properties — Leased Properties” and “Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — (1) Framework property management service”, our Group, as lessee, has leased properties and procured property management services for such properties from companies controlled by Mr. Chou to meet the daily operational needs of our Group. Notwithstanding the above, our Directors are of the view that we do not rely on the relevant lessors for leasing properties to us as (i) from time to time, we are able to identify various alternative properties that meet our criteria for our intended use, and (ii) we have also leased properties from parties other than companies controlled by Mr. Chou for our operations.

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities and also established a set of internal control procedures to facilitate the effective operation of our business.

Accordingly, we believe that we are capable of carrying on our business independently of our Controlling Shareholders and its or his respective close associates. Our Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and their close associates upon the Listing.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs.

During the Track Record Period, Mr. Chou, our Controlling Shareholders, provided guarantee in favor of third party lenders for advances to our members of our Group. See note 40 of the Accountants’ Report in Appendix I to this prospectus for more information. As at the Latest Practicable Date, such guarantee has been released.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Other than the above, our source of funding was independent from our Controlling Shareholders and none of our Controlling Shareholders or their respective close associates financed our operations during the Track Record Period. Our Group's accounting and finance functions are independent of our Controlling Shareholders. Our Directors also confirm that our Group does not intend to obtain any borrowings, guarantees, pledges or mortgages from any of our Controlling Shareholders or entities controlled by our Controlling Shareholders. Therefore, we have no financial dependence on our Controlling Shareholders.

NON-COMPETE UNDERTAKINGS

To ensure that competition will not exist in the future, on June 17, 2021, each of Chou Dynasty and Mr. Chou has entered into a deed of non-competition (the "Deed of Non-competition") in favor of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) to the effect that each of them will not, and will procure each of their respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our business.

Pursuant to the Deed of Non-competition, each of Chou Dynasty and Mr. Chou irrevocably and unconditionally, jointly and severally, covenants and undertakes with our Company (for ourselves and as trustee for and on behalf of our subsidiaries) that, during the period from the Listing Date and up to the date on which (i) the Shares cease to be listed on the Stock Exchange; or (ii) such Controlling Shareholders cease to be Controlling Shareholders of our Company (whichever is the earlier) (the "Restricted Period"), each of Chou Dynasty and Mr. Chou shall not, and shall procure that none of their respective close associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in any business which is conducted or carried on by our Group from time to time, including but not limited to the provision of 4S dealership stores and related services in the PRC (the "Restricted Business").

Chou Dynasty and Mr. Chou have also covenanted to notify our Company that, during the Restricted Period, if they or their respective close associates are offered or become aware of any new business opportunity which is, or is likely to be, directly or indirectly competing with the Restricted Business, and they shall provide our Company with all necessary information via a written notice. We shall have a right to take up the business opportunity within one month after the notice is received from such Controlling Shareholders, and in such case, such Controlling Shareholders shall use their reasonable endeavors to assist us to invest in such business opportunity on the terms being offered to such Controlling Shareholders or their respective close associates. Chou Dynasty, Mr. Chou or their respective close associates may only take up such new business opportunity after receiving notice from our Company declining such new business opportunity.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Notwithstanding the aforesaid, the non-competition undertaking as set out above shall not prevent Chou Dynasty, Mr. Chou and their respective close associates from acquiring shareholding interest (direct or indirect) in a company listed on any stock exchange anywhere in the world and engaged in any Restricted Business provided that (i) the total number of shares held by the relevant Controlling Shareholder and/or their respective close associates in aggregate does not amount to more than 5% of the issued shares of that company; or (ii) Chou Dynasty, Mr. Chou and their respective close associates are not entitled to appoint such number of directors representing more than 10% of the total number of directors of that company; or (iii) Chou Dynasty, Mr. Chou and their respective close associates shall not be the shareholder with the largest shareholding or interest in that company.

The Deed of Non-competition and the rights and obligations thereunder are subject to and conditional upon the granting and approval for listing of, and permission to deal in, the Shares and the Global Offering becoming unconditional as specified in “Structure of the Global Offering” of this prospectus.

Confirmation given by Directors

Each Director has confirmed that he or she does not have any competing business with our Group.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by Chou Dynasty and Mr. Chou under the Deed of Non-Competition;
- (b) Chou Dynasty and Mr. Chou undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the undertaking under the Deed of Non-Competition; and
- (c) Chou Dynasty and Mr. Chou will make annual declarations on compliance with their undertaking under the Deed of Non-Competition in the annual report of our Company.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into a number of continuing agreements and arrangements with our connected persons. Upon the Listing, the transactions disclosed in this section will constitute continuing connected transactions as defined under the Listing Rules.

| No. | Transactions | Applicable Listing Rules | Waiver sought | Proposed annual cap for the year ending December 31, | | 2023 |
|-----|---|---------------------------------|--------------------------------|--|--------|--------|
| | | | | 2021 | 2022 | |
| | | | | <i>(in RMB'000)</i> | | |
| | Exempt continuing connected transactions | | | | | |
| (1) | Vehicle grooming services | 14A.34, 14A.52, 14A.53, 14A.76 | NA | 850 | 950 | 1,100 |
| (2) | eCapital Technology property leasing | 14A.34, 14A.52, 14A.53, 14A.76 | NA | 1,100 | 1,100 | 1,100 |
| | Non-exempt continuing connected transactions | | | | | |
| (1) | Framework property management service | 14A.34, 14A.52, 14A.53, 14A.105 | Requirement as to announcement | 21,000 | 23,600 | 24,100 |
| (2) | IT support services | 14A.34, 14A.52, 14A.53, 14A.105 | Requirement as to announcement | 8,000 | 8,000 | 8,000 |
| (3) | Sale and leaseback | 14A.34, 14A.52, 14A.53, 14A.105 | Requirement as to announcement | 20,000 | 20,000 | 20,000 |
| (4) | A. Vehicle sale and purchase | 14A.34, 14A.52, 14A.53, 14A.105 | Requirement as to announcement | 60,000 | 66,000 | 72,600 |
| | B. Cooperation with eCapital | 14A.34, 14A.52, 14A.53, 14A.105 | Requirement as to announcement | 1,000 | 1,100 | 1,210 |

Exempt Continuing Connected Transactions

(1) Vehicle Grooming Services

On June 10, 2021, Chengdu Jinbao and Chengdu Xinbao entered into a vehicle grooming service agreement (the “Vehicle Grooming Service Agreement”) with Sichuan Chuanwu Automobile Import and Export Trade Corporation* (四川省川物汽車進出口貿易總公司) (“Chuanwu Trade”). Pursuant to the Vehicle Grooming Service Agreement, among others, (i) Chuanwu Trade will send qualified staff, relevant tools and equipment to provide vehicle grooming and cleaning services at the specified standard according to the types of vehicles to be taken care of (e.g. vehicles used in test-drive, vehicles used for display, vehicles for staff

CONNECTED TRANSACTIONS

uses etc.) in the premises of Chengdu Jinbao and Chengdu Xinbao, and (ii) Chengdu Jinbao and Chengdu Xinbao will ensure there will be normal supply of water and electricity in their respective premises. In consideration of the services provided, Chuanwu Trade will be entitled to a service fee calculated based on (a) the actual number of vehicles served and (b) pre-determined service fee rates based on the types of vehicles being taken care of (the “Service Fee Rates”). The Vehicle Grooming Service Agreement is for a term with effect from June 10, 2021 to December 31, 2023, renewable for another three years unless terminated by a party by serving written notice to the other parties within 30 days prior to the expiry of the Vehicle Grooming Service Agreement (subject to compliance with the applicable Listing Rules regarding continuing connected transactions).

Listing Rule Implications

The counterparty in the Vehicle Grooming Service Agreement is Chuanwu Trade, which is held as to 18%, 40%, 27.2% and 14.8% by Ms. Hu Xiaoxia, Mr. Zhang Heng, Ms. Hu’s husband, Mr. Zhang Zheng and Ms. Zhang Yuan (their son and daughter, respectively). Meanwhile, Ms. Hu Xiaoxia is a director of Chengdu Jinbao and Chengdu Xinbao, our subsidiaries and therefore a connected person of our Company. Accordingly, Chuanwu Trade is an associate of Ms. Hu Xiaoxia and a connected person of our Company.

Based on the expected service fee to be paid to Chuanwu Trade, we expect that each of the applicable percentage ratios (other than the profits ratio) for the Vehicle Grooming Service Agreement calculated in accordance with Rule 14A.77 of the Listing Rules will be less than 0.1% and thus the transactions contemplated under the Vehicle Grooming Service Agreement constitute de minimis continuing connected transactions of our Company which are fully exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Directors are of the view that the transactions contemplated under the Vehicle Grooming Service Agreement are on normal commercial terms.

Historical Amount and Annual Caps

The service fees charged by Chuanwu Trade for the years ended December 31, 2018, 2019 and 2020 were approximately RMB635,000, RMB763,000, and RMB737,000, respectively. Having taken into account the historical transaction amount, the Service Fee Rates and the expected growth in transaction volume in accordance with the expected growth in sales of automobiles by the 4S stores operated by Chengdu Jinbao and Chengdu Xinbao at an average yearly growth rate of approximately 10% (which is an estimate adopted for the purpose of the annual cap only and based on the assumptions that the market demand for automobiles to be offered at the relevant 4S stores remains strong and business strategy of Chengdu Jinbao and Chengdu Xinbao will continue to be successful), the estimated annual caps for the years ending December 31, 2021, 2022 and 2023 are RMB850,000, RMB950,000 and RMB1,100,000, respectively. The Service Fee Rates under the Vehicle Grooming Service Agreement were negotiated on arm’s length basis with reference to the prevailing marketing prices that would have been charged by an Independent Third Party service provider offering similar services in the relevant locations.

CONNECTED TRANSACTIONS

(2) *eCapital Technology property leasing*

On June 10, 2021, BetterLife Tianjin entered into a property leasing agreement with Beijing eCapital Kechuang Technology Group Ltd.* (北京易匯科創科技集團有限公司) (“eCapital Technology”) pursuant to which BetterLife Tianjin will lease certain properties located in Beijing to eCapital Technology for office purpose, BetterLife Tianjin shall be entitled to receive rent, while the utilities expenses and property charges shall be borne by eCapital Technology (the “eCapital Technology Property Leasing Agreement”). The rental under the eCapital Technology Property Leasing Agreement was negotiated on arm’s length basis with reference to the prevailing market rates of comparable properties as indicated in a fair rent letter issued by an Independent Third Party valuer and at a level that would have been charged if the subject property was leased to an Independent Third Party. The eCapital Technology Property Leasing Agreement is for a term with effect from June 10, 2021 to December 31, 2023, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to the expiry of the eCapital Technology Property Leasing Agreement (subject to compliance with the applicable Listing Rules regarding continuing connected transactions).

Listing Rule Implications

The counterparty in the eCapital Technology Property Leasing Agreement is eCapital Technology, which is ultimately and solely controlled by Mr. Chou Som Po (周松波), the elder brother of Mr. Chou, our executive Director and Controlling Shareholder. Accordingly, eCapital Technology is an associate of Mr. Chou and a connected person of our Company.

Based on the expected rental payment to be received under the eCapital Technology Property Leasing Agreement, we expect that each of the applicable percentage ratios (other than the profits ratio) for the eCapital Technology Property Leasing Agreement calculated in accordance with Rule 14A.77 of the Listing Rules will be less than 5% and the largest annual cap is less than HK\$3 million. Therefore, the transactions contemplated under the eCapital Technology Property Leasing Agreement constitute de minimis continuing connected transactions of our Company which are fully exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Directors (excluding Mr. Chou) are of the view that the transactions contemplated under the eCapital Technology Property Leasing Agreement are on normal commercial terms.

Historical Amount and Annual Caps

We started such lease of property to eCapital Technology in May 2020. The rent charged by BetterLife Tianjin for the year ended December 31, 2020 was approximately RMB669,000. Having taken into account the actual needs of eCapital Technology in office space and the expected level of rental based on the principle set out above, the estimated annual caps for the years ending December 31, 2021, 2022 and 2023 are RMB1,100,000, RMB1,100,000 and RMB1,100,000, respectively.

CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

(1) Framework property management service

During the Track Record Period, we leased certain properties from companies controlled by Mr. Chou which are not members of our Group. For details of such leased properties, please refer to “Business – Properties – Leased Properties” in this prospectus. The parties and/or their respective subsidiaries will enter into or have an individual property management service agreement in effect in respect of each actual transaction during the term of the Framework Property Management Service Agreement (as defined below) and the service fees to be charged shall include (i) property management fee based on the actual area of the leased property, and/or (ii) utilities and other expenses based on actual usage.

With a view to regulating the provision of property management and relevant services provided by the relevant lessors in compliance with the Listing Rules, on June 10, 2021, BetterLife Tianjin (for itself and on behalf of its subsidiaries) entered into a framework property management service agreement (the “Framework Property Management Service Agreement”) with Beijing Zhoushi and Tianjin Guomao (collectively, the “Service Providers”, for themselves and on behalf of their respective subsidiaries). Pursuant to the Framework Property Management Service Agreement, the Service Providers shall provide property management and other services, such as security, cleaning, gardening, parking, and repair and maintenance services to BetterLife Tianjin and/or its subsidiaries in respect of the properties leased by the Service Providers to BetterLife Tianjin and/or its subsidiaries. In conjunction with the leases of properties to us, the lessors also provided property management and relevant services to us. It is expected that the relevant lessors will continue to provide such management and relevant services to us in respect of the properties they lease to us after the Listing.

The Framework Property Management Service Agreement is for a term with effect from June 10, 2021 to December 31, 2023, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to the expiry of the Framework Property Management Service Agreement (subject to compliance with the applicable Listing Rules regarding continuing connected transactions).

Each individual property management service agreement shall contain the specific details of the relevant leased property and comply with the agreed terms of the Framework Property Management Service Agreement in all material respects. BetterLife Tianjin or its subsidiaries shall negotiate the property management fee with the Service Providers and/or their respective subsidiaries on an arm’s length basis and based on the actual area of the relevant leased property at a price not higher than the prevailing market price with reference to management fees chargeable by Independent Third Parties offering similar services in the relevant locations. The utilities and other expenses will be determined based on the actual usage, such as water and electricity charges, and parking service fees. The water and electricity charges charged by the relevant authorities/units would be passed on to and borne by our Group with no surcharges from the Service Providers. The parking service fee rates, which shall be made public and subject to the supervision of public and local competent authorities, will be determined with reference to the prevailing market rates at the relevant locations.

CONNECTED TRANSACTIONS

Listing Rule Implications

Mr. Chou is our executive Director and Controlling Shareholder and hence a connected person of our Company. Each of Beijing Zhoushi and Tianjin Guomao is indirectly legally owned by the trustee of the N&L Chou Trust, where Mr. Chou acts as the protector and settlor, for the benefit of the beneficiaries thereunder. Accordingly, each of the Service Providers is an associate of Mr. Chou and thus a connected person of our Company. Therefore, each of the transactions contemplated under the Framework Property Management Service Agreement are of a similar nature, the transactions contemplated thereunder are aggregated and treated as if they were one transaction pursuant to Rule 14A.82(1) and Rule 14A.83.

Based on the expected property management fees and utilities expenses to be paid by our Group, we expect that each of the applicable percentage ratios (other than the profits ratio) for the Framework Property Management Service Agreement calculated in accordance with Rule 14A.77 of the Listing Rules will be more than 0.1% but less than 5% and thus the transactions contemplated under the Framework Property Management Service Agreement as aggregated constitute continuing connected transactions of our Company which are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements and are subject to the annual review, reporting and announcement requirements pursuant to Rule 14A.76(2)(a) of the Listing Rules.

Historical Amount and Annual Caps

The property management fees and utilities expenses charged by the Service Providers (or their respective subsidiaries) for the years ended December 31, 2018, 2019 and 2020 were approximately RMB597,000, RMB6,729,000 and RMB13,579,000, respectively. Having taken into account (i) the actual use of area including an additional office area leased since the second half of 2020 (the aggregate area concerned has increased by approximately 2,460 sq.m. to approximately 38,636.6 sq.m. thereafter), (ii) the expected increase in property management fee rates (from the range of RMB0.6 to 0.8 per sq.m. per day in 2021 to the new range of RMB0.8 to 1.0 from 2022 onwards) following adjustments to reflect prevailing market price and inflation factor, (iii) the expected maximum utilities expenses (estimated by annualizing the highest monthly usage during the years ended December 31, 2018, 2019 and 2020), and (iv) other expenses led by the expected expansion of our business (such as an increase in parking service fee due to expected growth in sales of new vehicles and total number of vehicles to be maintained/repaired at our 4S stores at an average yearly growth rate of approximately 10% in an optimistic scenario (which is an estimate adopted for the purpose of the annual cap only and based on the assumptions that the market demand for luxury and ultra-luxury brands automobiles remains strong and our Group's strategy in focusing on the relevant segments will continue to be successful)), the estimated annual caps for the years ending December 31, 2021, 2022 and 2023 are RMB21,000,000, RMB23,600,000 and RMB24,100,000, respectively.

CONNECTED TRANSACTIONS

Application for waiver

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of the transactions contemplated under the Framework Property Management Service Agreement, provided that the total value of transactions under the Framework Property Management Service Agreement for each of the years ending December 31, 2021 and 2022 and 2023 will not exceed the relevant proposed annual caps set forth above. Apart from the announcement requirement for which waiver is sought, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of the Framework Property Management Service Agreement are altered or if our Company enters into any new agreements with any connected persons in the future, we will fully comply with the relevant requirements set out in Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on this non-exempt continuing connected transaction, our Company will take immediate steps to ensure the compliance with such new requirements within a reasonable time. Such transactions will continue to be subject to the annual reporting requirement under the Listing Rules.

Views of our Directors and the Sole Sponsor

Our Directors (including the independent non-executive Directors, but excluding Mr. Chou) are of the view, and the Sole Sponsor concurs, that (i) the transactions contemplated under the Framework Property Management Service Agreement have been and will be entered into in the ordinary and usual course of business, are on normal commercial terms or better to our Group and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the proposed annual caps for the transactions contemplated under the Framework Property Management Service Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(2) IT support services

On June 10, 2021, BetterLife Tianjin (for itself and on behalf of its subsidiaries) entered into a framework information technology support services agreement (the “Framework IT Support Service Agreement”) with Beijing Xiaobo Technology Co., Ltd.* (北京小波科技有限公司) (“Xiaobo Technology”). Pursuant to the Framework IT Support Service Agreement, Xiaobo Technology will provide information technology support services, including but not limited to, authorization for use of information technology systems developed by Xiaobo Technology, overall information technology system implementation and maintenance and office automation system maintenance to BetterLife Tianjin and/or its subsidiaries and the 4S

CONNECTED TRANSACTIONS

stores operated by them. The parties and/or their respective subsidiaries may enter into an individual IT support service agreement in respect of each actual transaction based on the terms of the Framework IT Support Service Agreement.

The Framework IT Support Service Agreement is for a term with effect from June 10, 2021 to December 31, 2023, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to the expiry of the Framework IT Support Service Agreement (subject to compliance with the applicable Listing Rules regarding continuing connected transactions).

Each individual IT support service agreement shall contain more specific details of the information technology services to be provided and the consideration for the services and comply with the agreed terms of the Framework IT Support Service Agreement in all material respects. The consideration payable to Xiaobo Technology is determined based on (i) the complexity of the services and systems involved and (ii) hourly rates (ranging from RMB1,800 to RMB2,200 per hour) determined by the estimated need for manpower and other resources and costs of Xiaobo Technology in respect of the relevant services and systems involved with reference to the prevailing market price that would have been charged by Independent Third Party service providers (which were comparable to quotes obtained from Independent Third Parties providing similar services).

Listing Rule Implications

Mr. Chou is our executive Director and Controlling Shareholder and hence a connected person of our Company. As Xiaobo Technology is legally owned by the trustee of the Chou Family Trust for the benefit of the beneficiaries thereunder, it is an associate of Mr. Chou and thus a connected person of our Company. As the transactions contemplated under the Framework IT Support Service Agreement are of a similar nature, the transactions contemplated thereunder are aggregated and treated as if they were one transaction pursuant to Rule 14A.82(1) and Rule 14A.83.

Based on the expected consideration to be paid by our Group, we expect that each of the applicable percentage ratios (other than the profits ratio) for the Framework IT Support Service Agreement calculated in accordance with Rule 14A.77 of the Listing Rules will be more than 0.1% but less than 5% and thus the transactions contemplated under the Framework IT Support Service Agreement as aggregated constitute continuing connected transactions of our Company which are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements and are subject to the annual review, reporting and announcement requirements pursuant to Rule 14A.76(2)(a) of the Listing Rules.

CONNECTED TRANSACTIONS

Historical Amount and Annual Caps

The service fees charged by Xiaobo Technology for the years ended December 31, 2018, 2019 and 2020 were approximately RMB10,042,000, RMB6,799,000 and RMB11,534,000, respectively. Having taken into account the average historical transaction amount (comprising services fees for both development and maintenance of information technology system of our Group), the continual need of our Group to maintain our information technology system (including the ERP system) and that our Company intends to also engage certain Independent Third Party IT service provider(s) for developing new systems which may be more competitive in terms of cost and knowledge specialty than Xiaobo Technology in such aspect in the future, the estimated annual caps for the years ending December 31, 2021, 2022 and 2023 are RMB8,000,000, RMB8,000,000 and RMB8,000,000, respectively.

Application for waiver

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of the transactions contemplated under the Framework IT Support Service Agreement, provided that the total value of transactions under the Framework IT Support Service Agreement for each of the years ending December 31, 2021 and 2022 and 2023 will not exceed the relevant proposed annual caps set forth above. Apart from the announcement requirement for which waiver is sought, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of the Framework IT Support Service Agreement are altered or if our Company enters into any new agreements with any connected persons in the future, we will fully comply with the relevant requirements set out in Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on this non-exempt continuing connected transaction, our Company will take immediate steps to ensure the compliance with such new requirements within a reasonable time. Such transactions will continue to be subject to the annual reporting requirement under the Listing Rules.

Views of our Directors and the Sole Sponsor

The Company considers that Xiaobo Technology has demonstrated that it has sufficient resources and competent staff to provide the required IT support services to our Group at a competitive price which is fair and reasonable to the Company. Our Directors (including the independent non-executive Directors, but excluding Mr. Chou) are of the view, and the Sole Sponsor concurs, that (i) the transactions contemplated under the Framework IT Support Service Agreement have been and will be entered into in the ordinary and usual course of business, are on normal commercial terms or better to our

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Group and are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the proposed annual caps for the transactions contemplated under the Framework IT Support Service Agreement are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

(3) Sale and leaseback

On June 10, 2021, BetterLife Tianjin (for itself and on behalf of its subsidiaries) entered into a framework sale and leaseback agreement (the “Framework Sale and Leaseback Agreement”) with eCapital. Pursuant to the Framework Sale and Leaseback Agreement, BetterLife Tianjin and/or its subsidiaries shall sell to eCapital vehicles, which shall then be leased back to BetterLife Tianjin or its subsidiaries for test-drive. Upon the expiration of the lease period, BetterLife Tianjin or its subsidiaries may purchase back such leased vehicle(s) at a nominal consideration (normally being RMB200 per vehicle). The need for such arrangement arises because our suppliers require that a certain number of test-drive vehicles should be made available in our 4S stores, and with the view to improving the efficiency in the use of working capital of BetterLife Tianjin and its subsidiaries and to utilizing the license plates owned by eCapital.

The Framework Sale and Leaseback Agreement is for a term with effect from June 10, 2021 to December 31, 2023, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to the expiry of the Framework Sale and Leaseback Agreement (subject to compliance with the applicable Listing Rules regarding continuing connected transactions).

The parties and/or their respective subsidiaries may enter into an individual agreement in respect of each actual transaction based on the terms of the Framework Sale and Leaseback Agreement, which shall contain more specific details of the vehicles concerned, and include terms including that term of the sale and leaseback shall be normally 12 months payable on a monthly basis and the amount of lease payment, which comprises vehicle sale price (which accounts for the largest portion of the payment and shall normally be the same as the retail price of the vehicles concerned), license plate utilization fee and lease interest at a fixed interest rate. The actual interest charged shall be determined based on the prevailing market condition, the internal return rate requirements of eCapital determined by its costs and shall not be higher than the interest rate payable to eCapital by an Independent Third Party in similar transactions.

Listing Rule Implications

eCapital is ultimately controlled by Mr. Chou, our executive Director and Controlling Shareholder. Accordingly, eCapital is an associate of Mr. Chou and a connected person of our Company. As the transactions contemplated under the Framework Sale and Leaseback Agreement are of a similar nature, the transactions contemplated thereunder are aggregated as if they were one transaction pursuant to Rule 14A.82(1) and Rule 14A.83.

CONNECTED TRANSACTIONS

Based on the expected consideration to be paid by our Group to eCapital, we expect that each of the applicable percentage ratios (other than the profits ratio) for the Framework Sale and Leaseback Agreement calculated in accordance with Rule 14A.77 of the Listing Rules will be more than 0.1% but less than 5% and thus the transactions contemplated under the Framework Sale and Leaseback Agreement as aggregated constitute continuing connected transactions of our Company which are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements and are subject to the annual review, reporting and announcement requirements pursuant to Rule 14A.76(2)(a) of the Listing Rules.

Historical Amount and Annual Caps

The proceeds from the disposal of vehicles to eCapital for the years ended December 31, 2018, 2019 and 2020 amounted to approximately RMB9,948,000, RMB12,047,000 and RMB16,918,000, respectively. The lease payments and license plate utilization fees charged by eCapital for the years ended December 31, 2018, 2019 and 2020 were approximately RMB8,406,000, RMB13,469,000 and RMB18,061,000, respectively.

Having taken into account the expected number of test-drive vehicles to be replaced each year based on the specifications of our suppliers (which is expected to remain largely constant) and the retail price of the relevant vehicles, the estimated annual caps in relation to disposal of vehicles for the years ending December 31, 2021, 2022 and 2023 are RMB17,000,000, RMB17,000,000 and RMB17,000,000, respectively. Having taken into account the average historical transaction amount and the expected accumulated principal amount, interest (at an estimated annual rate of 15% based on the average historical interest rate during the Track Record Period) and license plate utilization fees, and the expected number of test-drive vehicles to be replaced each year based on the specification of our suppliers (which is expected to remain largely constant), the estimated annual caps in relation to the lease payments and license plate utilization fees for the years ending December 31, 2021, 2022 and 2023 are RMB20,000,000, RMB20,000,000 and RMB20,000,000, respectively.

Application for waiver

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of the transactions contemplated under the Framework Sale and Leaseback Agreement, provided that the total value of transactions under the Framework Sale and Leaseback Agreement for each of the years ending December 31, 2021 and 2022 and 2023 will not exceed the relevant proposed annual caps set forth above. Apart from the announcement requirement for which waiver is sought, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

If any terms of the Framework Sale and Leaseback Agreement are altered or if our Company enters into any new agreements with any connected persons in the future, we will fully comply with the relevant requirements set out in Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on this non-exempt continuing connected transaction, our Company will take immediate steps to ensure the compliance with such new requirements within a reasonable time. Such transactions will continue to be subject to the annual reporting requirement under the Listing Rules.

Views of our Directors and the Sole Sponsor

As stated above, a certain number of test-drive vehicles have to be made available in our 4S stores, and with the view to improving the efficiency in the use of working capital of our Group and to utilizing the license plates owned by eCapital, the Company considers that the transactions contemplated under the Framework Sale and Leaseback Agreement provide an efficient, practical and lawful solution at a cost which is fair and reasonable to the Company. Our Directors (including the independent non-executive Directors, but excluding Mr. Chou) are of the view, and the Sole Sponsor concurs, that (i) the transactions contemplated under the Framework Sale and Leaseback Agreement have been and will be entered into in the ordinary and usual course of business, are on normal commercial terms or better to our Group and are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the proposed annual caps for the transactions contemplated under the Framework Sale and Leaseback Agreement are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

Furthermore, having considered that (i) the size of the transactions in relation to the lease payments and license plate utilization fees contemplated under the Framework Sale and Leaseback Agreement is insignificant to our Group (the maximum estimated annual cap represents only approximately 0.2% of our Group's revenue for the year ended December 31, 2020) and (ii) there are Independent Third Parties which can provide similar services on comparable terms to our Group as alternative if required, our Directors (including the independent non-executive Directors) are of the view that such transactions contemplated under the Framework Sale and Leaseback Agreement would have no impact on our Group's financial independence on our Controlling Shareholders and his/its close associates.

(4) A. Vehicle sale and purchase

On June 10, 2021, BetterLife Tianjin (for itself and on behalf of its subsidiaries) entered into a framework vehicle sale and purchase agreement (the "Framework Vehicle Sale and Purchase Agreement") with eCapital. Pursuant to the Framework Vehicle Sale and Purchase Agreement, among others, BetterLife Tianjin and/or its subsidiaries will sell vehicles to eCapital as a result of eCapital's business of providing financial lease services to ultimate

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vehicle purchasers. According to the terms of the financial lease arrangement made between eCapital and ultimate vehicle purchasers, eCapital shall make payments to and purchase the vehicles from us, and the legal title of such vehicles shall be transferred to the ultimate vehicle purchasers upon full repayment of amounts under each financial lease arrangement. Therefore, such sale and purchase of vehicles have been recurring in our normal business operation.

The Framework Vehicle Sale and Purchase Agreement is for a term with effect from June 10, 2021 to December 31, 2023, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to the expiry of the Framework Vehicle Sale and Purchase Agreement (subject to compliance with the applicable Listing Rules regarding continuing connected transactions).

The parties and/or their respective subsidiaries may enter into an individual vehicle sale and purchase agreement in respect of each actual transaction based on the terms of the Framework Vehicle Sale and Purchase Agreement, which shall contain more specific details of the vehicles concerned. The actual vehicle purchase price shall be determined by our Group and the ultimate vehicle purchasers which in general shall be not less than the retail price of the relevant vehicle payable by a vehicle purchaser not requiring financial lease services.

Historical Amount and Annual Caps

The vehicle purchase transaction amounts for the years ended December 31, 2018, 2019 and 2020 were approximately RMB54,299,000, RMB52,538,000 and RMB46,324,000, respectively. The vehicle purchase transaction amount in 2020 decreased primarily because the financial lease business of eCapital was negatively affected by the COVID-19 outbreak and has gradually rebounded in the second half of 2020. Having taken into account the historical transaction amount (with less importance attached to transaction amount in 2020 due to the extraordinary impact of the COVID-19 pandemic) and the expected continual increase in business between our Group and eCapital at an average yearly growth rate of approximately 10% (which was prepared for the purpose of the annual cap only and based on (i) the growth in the sales volume at a CAGR of 3.3% and 10.2% and the revenue at a CAGR of 3.9% and 11.6% from new passenger vehicles of ultra-luxury and luxury brands in China from 2020 to 2025 as shown in the Frost & Sullivan Report, and (ii) the assumptions that our Group's strategy of focusing on the relevant segments continues to be successful and that eCapital's business strategy also continues to be successful), the estimated annual caps for the years ending December 31, 2021, 2022 and 2023 are RMB60,000,000, RMB66,000,000 and RMB72,600,000, respectively.

B. Cooperation with eCapital

On June 10, 2021, BetterLife Tianjin (for itself and on behalf of its subsidiaries) entered into a cooperation agreement (the "Cooperation Agreement") with eCapital. eCapital is a company engaged in the provision of financial lease services. Pursuant to the Cooperation Agreement, BetterLife Tianjin and/or its subsidiaries may, from time to time, refer their

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customers or potential customers who wish to arrange vehicle financing to eCapital, and eCapital shall pay commission fees to BetterLife Tianjin or its subsidiaries. The commission fee shall be calculated by the principal amount of a financial leasing loan granted by eCapital to a customer (some of which are essentially transactions contemplated under the Framework Vehicle Sale and Purchase Agreement), multiplied by a commission rate, which shall be generally determined by the duration of each financial leasing loan and subject to adjustment to be agreed between us and eCapital based on arm's length negotiation and prevailing market price. The initial commission rates agreed under the Cooperation Agreement are 1.2%, 1.5% and 2.0% for one-year, two-year and three-year financial leasing loans, respectively. Such commission rates shall not be lower than the commission rates that eCapital grants to any other party, in particular, other automobile dealership service providers in the PRC, in similar transactions.

The Cooperation Agreement is for a term with effect from June 10, 2021 to December 31, 2023, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to the expiry of the Cooperation Agreement (subject to compliance with the applicable Listing Rules regarding continuing connected transactions).

Historical Amount and Annual Caps

The commission fees charged by us for the years ended December 31, 2018, 2019 and 2020 were approximately RMB32,000, RMB35,000 and RMB59,000, respectively. Historically only one of our 4S dealership stores had charged commission fees from eCapital on certain transactions with eCapital. Since 2021, eCapital started to provide commission for all relevant transactions with our Group on an arm's length basis in order to increase its competitiveness among other financial institutions and further expand its business. Having taken into account (a) the terms of the Cooperation Agreement (including the commission rates), (b) that all our relevant 4S dealership stores would charge commission fees from eCapital from all relevant transactions with eCapital (including the transactions contemplated under the Framework Vehicle Sale and Purchase Agreement) according to the terms of the Cooperation Agreement, (c) the expected continual growth of business between our Group and eCapital at an average yearly growth rate of approximately 10% (which was prepared for the purpose of the annual cap only and based on (i) the growth in the sales volume at a CAGR of 3.3% and 10.2% and the revenue at a CAGR of 3.9% and 11.6% from new passenger vehicles of ultra-luxury and luxury brands in China from 2020 to 2025 as shown in the Frost & Sullivan Report, and (ii) the assumptions that our Group's strategy of focusing on the relevant segments continues to be successful and that eCapital's business strategy also continues to be successful), and (d) applying an estimated commission rate of 1.57% (which is within the range of the initial commission rates agreed under the Cooperation Agreement for one-year, two-year and three-year financial leasing loans as mentioned above) to the estimated amount of relevant transactions in the respective years, the estimated annual caps for the years ending December 31, 2021, 2022 and 2023 are RMB1,000,000, RMB1,100,000 and RMB1,210,000, respectively.

CONNECTED TRANSACTIONS

Listing Rule Implications

eCapital is ultimately controlled by Mr. Chou, our executive Director and Controlling Shareholder. Accordingly, eCapital is an associate of Mr. Chou and a connected person of our Company.

As part of the expected commission fees to be charged by us from eCapital is expected to be generated from the transactions under the Framework Vehicle Sale and Purchase Agreement and the counterparty to the Corporation Agreement and the Framework Vehicle Sale and Purchase Agreement is the same, we consider it appropriate to aggregate the annual caps under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement to calculate the applicable percentage ratios pursuant to Rule 14A.81 of the Listing Rules. Based on the expected consideration and commission to be paid by eCapital to our Group under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement, respectively, we expect that each of the applicable percentage ratios (other than the profits ratio) for the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement calculated in accordance with Rule 14A.77 of the Listing Rules, on an aggregate basis, will be more than 0.1% but less than 5% and thus the transactions contemplated under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement will constitute continuing connected transactions of our Company which are subject to the annual review, reporting and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76(2)(a) of the Listing Rules.

Application for waiver

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of the transactions contemplated under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement, provided that the total value of transactions under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement for each of the years ending December 31, 2021 and 2022 and 2023 will not exceed the relevant proposed annual caps set forth above. Apart from the announcement requirement for which waiver is sought, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement are altered or if our Company enters into any new agreements with any connected persons in the future, we will fully comply with the relevant requirements set out in Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

CONNECTED TRANSACTIONS

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on this non-exempt continuing connected transaction, our Company will take immediate steps to ensure the compliance with such new requirements within a reasonable time. Such transactions will continue to be subject to the annual reporting requirement under the Listing Rules.

Views of our Directors and the Sole Sponsor

As stated above, the Company considers that the transactions contemplated under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement are entered into during our normal business operations and are fair and reasonable to our Company. Our Directors (including the independent non-executive Directors, but excluding Mr. Chou) are of the view, and the Sole Sponsor concurs, that (i) the transactions contemplated under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement have been and will be entered into in the ordinary and usual course of business, are on normal commercial terms or better to our Group and are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the proposed annual caps for the transactions contemplated under the Framework Vehicle Sale and Purchase Agreement and the Cooperation Agreement are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

SHARE CAPITAL

SHARE CAPITAL

The authorized and issued share capital of our Company is as follows:

| | |
|----------------------------------|---------------|
| <i>Authorized Share Capital:</i> | <i>(HK\$)</i> |
| 1,000,000,000 | 10,000,000 |
| Shares | |

Assuming the Over-allotment Option is not exercised at all, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

| | | <i>Approximate percentage of issued share capital</i> | |
|------------------------------|--|---|--------------|
| <i>Issued Share Capital:</i> | | <i>(%)</i> | <i>HK\$</i> |
| 1 | Shares in issue as of the date of this prospectus | 0.0 | 0.01 |
| 449,999,999 | Shares to be issued under the Capitalization Issue | 75.0 | 4,499,999.99 |
| 150,000,000 | Shares to be issued under the Global Offering | 25.0 | 1,500,000 |
| | | | |
| 600,000,000 | Shares in total | 100.0 | 6,000,000 |

Assuming the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

| | | <i>Approximate percentage of issued share capital</i> | |
|------------------------------|--|---|--------------|
| <i>Issued Share Capital:</i> | | <i>(%)</i> | <i>HK\$</i> |
| 1 | Shares in issue as of the date of this prospectus | 0.0 | 0.01 |
| 449,999,999 | Shares to be issued under the Capitalization Issue | 72.3 | 4,499,999.99 |
| 172,500,000 | Shares to be issued under the Global Offering and the Over-allotment Option ⁽²⁾ | 27.7 | 1,725,000 |
| | | | |
| 622,500,000 | Shares in total | 100.0 | 6,225,000 |

SHARE CAPITAL

Notes:

- (1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.
- (2) Assuming a total of 22,500,000 Shares will be issued upon exercise of the Over-allotment Option in full.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, as of the time of the Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

ALTERATIONS OF SHARE CAPITAL

Our Company may from time to time by ordinary resolution or special resolution (as the case may be) of shareholders alter the share capital of our Company. For a summary of the provisions in the Articles regarding alterations of share capital, please refer to “2. Articles of Association — (a) Shares — (iii) Alteration of Capital” in Appendix III to this prospectus.

SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme on June 17, 2021. The principal terms of the Share Option Scheme are summarized in “F. Share Option Scheme” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company has only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Companies Act and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholder (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 into 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 Act reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. Please see “2. Articles of Association — (e) Meetings of members” in Appendix III to this prospectus for further details.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares of not more than the sum of:

- (i) 20% of the number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option); and
- (ii) the aggregate number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this general mandate are set out in "A. Further Information about Our Company — 4. Written resolutions of our Shareholder passed on June 17, 2021" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of up to 10% of the number of Shares in issue or to be issued immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "A. Further Information about Our Company — 4. Written resolutions of our Shareholder passed on June 17, 2021" in Appendix IV to this prospectus.

SHARE CAPITAL

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this share repurchase mandate, see “A. Further Information about Our Company — 4. Written resolutions of our Shareholder passed on June 17, 2021” in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 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 rights to vote in all circumstances at general meetings of our Company:

| Name | Capacity/Nature of interest | Immediately after the Global Offering and the Capitalization Issue⁽¹⁾ | |
|---|---|---|--|
| | | Number of Shares | Percentage of shareholding in our Company |
| Chou Dynasty | Beneficial owner | 450,000,000 | 75.0% |
| Red Dynasty | Interest in a controlled corporation | 450,000,000 | 75.0% |
| Credit Suisse Trust Limited ⁽²⁾ | Trustee | 450,000,000 | 75.0% |
| Mr. Chou ⁽²⁾ | Protector and beneficiary of a discretionary trust | 450,000,000 | 75.0% |

Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) Red Dynasty has issued two ordinary shares in total, of which one share was issued to Serangoon Limited and one share to Seletar Limited, respectively. Each of Serangoon Limited and Seletar Limited has made a declaration of trust, confirming that the shares in Red Dynasty are held by them in their respective names as nominee and trustee for Credit Suisse Trust Limited as trustee of the Chou Family Trust.

Except as disclosed above, our Directors are not aware of any person who will, immediately following the Global Offering and Capitalization Issue, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 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 rights to vote in all circumstances at general meetings of our Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Our Board is responsible and has general powers for the management and conduct of our business. Our Board currently consists of seven Directors, including four executive Directors and three independent non-executive Directors. The following table sets forth information regarding members of our Board:

| Name | Age | Position | Date of joining our Group | Date of appointment as Director | Roles and Responsibilities | Relationship with other Directors and the senior management |
|--------------------------------|-----|---|---------------------------|---------------------------------|---|---|
| Chou Patrick Hsiao-Po (周小波) | 52 | Chairman of the Board, chief executive officer and executive Director | September 1998 | May 18, 2018 | Overall strategy and operation of our Group | None |
| Sun Jing (孫靖) | 51 | Executive Director | December 2006 | December 28, 2020 | Strategic development, coordination of investors relations, and management of mid-senior level personnel of our Group | None |
| Wei Hongjing (魏紅晶) | 51 | Executive Director | June 2002 | December 28, 2020 | Overall operation management and execution of business plans of our Group | None |
| Chau Kwok Keung (鄒國強) | 44 | Executive Director and chief financial officer | September 2020 | December 28, 2020 | Overall financial planning and management, company secretarial affairs, coordination of investors relations and administrative work | None |
| Liu Dengqing (劉登清) | 50 | Independent non-executive Director | December 2020 | December 28, 2020 | Providing independent opinion and judgment to our Board | None |

DIRECTORS AND SENIOR MANAGEMENT

| Name | Age | Position | Date of joining our Group | Date of appointment as Director | Roles and Responsibilities | Relationship with other Directors and the senior management |
|----------------------|-----|------------------------------------|---------------------------|---------------------------------|---|---|
| Wong Ka Kit (黃家傑) | 44 | Independent non-executive Director | December 2020 | December 28, 2020 | Providing independent opinion and judgment to our Board | None |
| Yau Ka Chi (邱家賜) | 63 | Independent non-executive Director | December 2020 | December 28, 2020 | Providing independent opinion and judgment to our Board | None |

The following table sets forth information regarding senior management of our Company:

| Name | Age | Position | Date of joining our Group | Appointment date | Roles and Responsibilities | Relationship with other Directors and the senior management |
|------------------|-----|--------------------------|---------------------------|-------------------|--|---|
| Xu Tao (徐濤) | 44 | President of sales | April 2008 | December 28, 2020 | Overall operation in sales and marketing matters of our Group | None |
| Luo Chao (羅超) | 50 | President of after-sales | April 2002 | December 28, 2020 | Overall management of vehicles after-sales market and customers of our Group | None |

BOARD OF DIRECTORS

Executive Directors

Mr. Chou Patrick Hsiao-Po (周小波), aged 52, is the founder of our Group and was appointed as a director of our Company in May 2018. He was appointed as the chairman of the Board, the chief executive officer and re-designated as an executive Director in December 2020. Mr. Chou is responsible for the overall strategy and operation of our Group.

Mr. Chou is an entrepreneur and has extensive industry experiences in automobile. He founded our Group in September 1998 and principally devoted his time and resources to our development, particularly in the areas of business development and operational management. He led the signing of the dealership agreement of Audi automobiles in China in 1999 and the dealership agreement of Porsche automobiles in China in 2000. Mr. Chou has accumulated over 20 years of experiences in the car dealing industry from his founding and development of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chou has taken up various positions in the relevant societies of automobile dealership industry in the PRC. He was appointed as the vice-president of CADA (中國汽車流通協會) in 2010 for a term of five years, and served as the president of CADA Porsche Dealers Association (中國汽車流通協會保時捷經銷商聯會) from 2014 to 2016 and served as the vice-president of Audi Dealers Association (中國汽車流通協會奧迪經銷商聯會) in 2017. Mr. Chou received education in Braunschweig, Germany in the 1980s and completed grade 10 education at Sidonienstraße school in 1987. From 1987 to 1992, Mr. Chou worked for his family business in Germany (including serving as the general manager of Chou Dynasty GmbH, which primarily focused on trade, investment and catering business between China and Germany). From 1992 to 1998, Mr. Chou served as the chairman of the board of directors of Dynasty (Tianjin) International Trade Co. Ltd.* (王朝(天津)國際工貿有限公司) in China which primarily focused on wholesaling business and he shifted his focus on automobile business after founding our Group in September 1998. Mr. Chou did not hold any directorship in any listed companies during the last three years.

Mr. Chou took up certain positions in the following PRC incorporated companies which were dissolved or deregistered as of the Latest Practicable Date:

| | Company | Status | Principal/ intended business | Date of dissolution/ deregistration | Relevant position |
|---|--|---------------------------|--|--|-------------------------------------|
| 1 | BetterLife (Beijing) Food & Beverages Management Co. Ltd.* (百得利(北京)餐飲管理有限公司) | Dissolved | Catering | March 2008 | Executive director |
| 2 | Zhejiang Junbaohang Automobiles Sales Co. Ltd.* (浙江駿寶行汽車銷售有限公司) | Dissolved | Sale of automobiles | March 2008 | Executive director, general manager |
| 3 | Baoding BetterLife Automobile Sales Co. Ltd.* (保定百得利汽車銷售有限公司) | Dissolved | 4S dealership store | March 2015 | Executive director |
| 4 | Chongqing BetterLife Sales Co. Ltd.* (重慶百得利汽車銷售有限公司) | Dissolved | 4S dealership store | June 2013 | Executive director |
| 5 | Zhejiang Sanjia Automobile Sales Co., Ltd.* (浙江三佳汽車銷售有限公司) | Dissolved | Sale of vehicles and accessories | August 2008 | Director |
| 6 | Hahale (Beijing) E-Commerce Technology Co., Ltd.* (哈哈樂(北京)電子商務科技有限公司) | Dissolved | Technology development, promotion and consulting | September 2017 | General manager |
| 7 | Dynasty (Tianjin) International Trade Co. Ltd.* (王朝(天津)國際工貿有限公司) | Operating license revoked | Wholesaling | January 2008 | Chairman of the board of directors |

DIRECTORS AND SENIOR MANAGEMENT

The revocation of operating license of Dynasty (Tianjin) International Trade Co. Ltd. was due to a failure to conduct annual inspection as required under the relevant PRC laws and regulations. Mr. Chou has confirmed that (i) the subject company has ceased business prior to the revocation of operating license; and (ii) there was no dishonest or fraudulent act on his part in respect of such revocation. Furthermore, as confirmed by Mr. Chou, at the time of the dissolution or license revocation of the companies above, none of them was insolvent, had any outstanding liabilities or was involved in any pending claims. So far as Mr. Chou was aware, the dissolution or license revocation of the above companies has not resulted in any further punishment or fines imposed by any competent authorities, nor has it resulted in any outstanding or potential claims or liabilities against him or such companies.

Ms. Sun Jing (孫靖), aged 51, joined our Group in December 2006 and was appointed as an executive Director and an authorized representative of our Company in December 2020, responsible for strategic development, coordination of investors relations, and management of mid-senior level personnel of our Group. Ms. Sun is currently the chief of the board office (董事會辦公室主任) of Beijing BetterLife Group.

From July 2014 to December 2018, Ms. Sun was the general manager of Beijing BetterLife Auto during which she was primarily responsible for formulating the strategy, sales goals and operation plans. Ms. Sun was also the general manager of BetterLife Tianjin from January 2011 to January 2013, primarily responsible for formulating the strategy, sales goals and operation plans for vehicle after-market business. Ms. Sun was the assistant to the chief executive officer of Beijing BetterLife Group from December 2006 to December 2010, responsible for supervising the operation of different stores and assisting the chief executive officer in development and negotiation of new projects.

Ms. Sun graduated from the Capital University of Economics and Business in the PRC with a bachelor's degree in management (majoring in Accounting) in June 2001. She obtained a Master of Science degree in Corporate Strategy and Finance from Edinburg Napier University in Scotland in November 2003.

Ms. Sun did not hold any directorship in any listed companies during the last three years.

Ms. Wei Hongjing (魏紅晶), aged 51, joined our Group in June 2002 and was appointed as an executive Director in December 2020, responsible for overall operation management and execution of business plans of our Group. Ms. Wei served as the general manager of Chengdu Jinniu Porsche Center operated by Chengdu Jinbao from January 2016 to December 2020 and Chengdu Airport Porsche Center operated by Chengdu Xinbao from January 2018 to December 2020, respectively.

During the periods of July 2015 to December 2015 and July 2004 to June 2009, Ms. Wei served as the general manager of the Beijing Yizhuang Porsche Center operated by Beijing BetterLife Group and was primarily responsible for formulating strategy, sales goals and operation plans and adjustment of marketing strategy of such center. Ms. Wei served as the assistant to the chief executive officer of our Group from July 2014 to July 2015.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wei graduated from Tianjin United Yeyu University* (天津聯合業餘大學) (the predecessor of the current Tianjin Development Zone Vocational College* (天津開發區職業技術學院) in July 1993 and attended training courses provided by Porsche Business Excellence International Dealer Academy (保時捷卓越經銷商管理學院) at the Executive School of Management, Technology and Law of the University of St. Gallen in Switzerland, from February 2017 to March 2018.

Ms. Wei did not hold any directorship in any listed companies during the last three years.

Mr. Chau Kwok Keung (鄒國強), aged 44, joined our Group as our chief financial officer in September 2020 and was appointed as an executive Director in December 2020. Mr. Chau is responsible for overall financial planning and management, company secretarial affairs, coordination of investors relations and administrative work.

Prior to joining our Group, Mr. Chau has served as an executive director and the chief financial officer of Comtec Solar Systems Group Limited (a company listed on the Stock Exchange with stock code: 712.HK) from November 2007 to January 2020. Mr. Chau was responsible for its corporate financial and general management. He was also appointed as (i) an independent non-executive director and the chairman of the audit committee of Qingdao Port International Co., Ltd., a company dual-listed on the Stock Exchange (stock code: 6198.HK) and the Shanghai Stock Exchange (stock code: 601298.SH) from May 2014 to May 2019; (ii) an independent director of The9 Limited, whose shares are listed by way of American Depository Shares on the National Association of Securities Dealers Automated Quotations (“NASDAQ”) (symbol: NCTY), since October 2015; (iii) an independent non-executive director and the chairman of the audit committee of China Xinhua Education Group Ltd., a company listed on the Stock Exchange (stock code: 2779.HK), since October 2017; (iv) an independent non-executive director of China Tobacco International (HK) Company Limited, a company listed on the Stock Exchange (stock code: 6055.HK), since December 2018; (v) an independent non-executive director and the chairman of the audit committee of Forward Fashion (International) Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2528.HK), since December 2019; and (vi) an independent non-executive director of Bank of Zhangjiakou Co., Ltd (張家口銀行股份有限公司) since April 2020. He also acted as a member of supervisory board of RIB Software AG (symbol: RIB), a software company in Germany, which was listed on the Frankfurt Stock Exchange, from May 2010 to June 2013.

Mr. Chau has also served in various positions at China.com Inc. (currently known as Sino Splendid Holdings Limited), a company listed on the Stock Exchange (stock code: 8006.HK) from October 2005 to October 2007, including qualified accountant, chief financial officer, company secretary and authorised representative. Prior to joining China.com Inc., he was the deputy group financial controller of China South City Holdings Limited, a company listed on the Stock Exchange (stock code: 1668.HK) from August 2003 to April 2005 and the financial controller of Shanghai Hawei New Materials and Technology Company Limited from June 2002 to August 2003. Mr. Chau was employed by Arthur Andersen & Co. initially as an experienced staff accountant and then he was subsequently promoted to be a senior consultant in the Global Corporate Finance Division of Arthur Andersen & Co. in March 2002.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chau has been a member of the Association of Chartered Certified Accountants (ACCA) since June 2002, a Chartered Financial Analyst of CFA Institute since September 2003 and a member of Hong Kong Institute of Certified Public Accountants (HKICPA) since July 2005. Mr. Chau also obtained a certificate of Qualified Independent Director from the Shanghai Stock Exchange since August 2017 and was approved by China Banking and Insurance Regulatory Commission as qualified director of banking institutions in China since March 2020. Mr. Chau has been a fellow member of the Institute of Public Accountants (IPA) of Australia and Institute of Financial Accountants (IFA) since June 2020. Mr. Chau received a bachelor's degree in Business Administration from the Chinese University of Hong Kong in December 1998.

Save as disclosed above, Mr. Chau did not hold any directorship in any listed companies during the last three years.

Although Mr. Chau currently serves as an independent director or independent non-executive director (as the case may be) in various companies, including listed companies in Hong Kong and the U.S. (the "Relevant Companies"), having considered the following factors:

- (i) as advised and confirmed by Mr. Chau, he does not hold any senior management role in the Relevant Companies which would require him to devote substantial time and attention as is required from senior management members of listed companies;
- (ii) Mr. Chau's roles in the Relevant Companies are non-executive in nature which do not require his full-time involvement and he does not participate in the day-to-day operations of the Relevant Companies;
- (iii) as advised and confirmed by Mr. Chau, he has not found difficulties in devoting to and managing his time for numerous listed companies and he is confident that with his experience in being responsible for multiple roles, he will be able to discharge his duties to our Company;
- (iv) as advised and confirmed by Mr. Chau, none of the Relevant Companies that he has directorship with has questioned or complained about his time devoted to such companies;
- (v) according to the information published by the Hong Kong listed companies and the confirmation from the U.S. listed company of which Mr. Chau is a director, and as advised and confirmed by Mr. Chau, Mr. Chau had a 100% attendance rate for the general meetings, board meetings and board committee meetings (as the case may be) of the Relevant Companies in respect of the most recent three financial years; and
- (vi) in discharging his responsibilities within our Group, as advised and confirmed by Mr. Chau, he is sufficiently supported by our senior management and other staff members of our Group,

DIRECTORS AND SENIOR MANAGEMENT

our Directors believe that the various positions currently held by Mr. Chau will not result in Mr. Chau not having sufficient time to act as our executive Director or not properly discharging his fiduciary duties as an executive Director, and the Sole Sponsor concurs with such views of our Directors.

Independent Non-executive Directors

Liu Dengqing (劉登清), aged 50, was appointed as an independent non-executive Director of our Company in December 2020 and is responsible for providing independent opinion and judgment to our Board.

Mr. Liu is the director, president and chief executive officer of China Enterprise Appraisals Consultation Co., Ltd.* (北京中企華資產評估有限責任公司). Mr. Liu also serves as a member of the 1st Listing Committee of ChiNext board of the Shenzhen Stock Exchange, a project appraisal expert of financial institution state assets appraisal project of the MoF, and a vice president of Beijing Appraisal Society (北京資產評估協會). Since November 2018, he has served as a part-time professor of the School of Public Finance and Taxation and a researcher of the Research Institute of Asset Appraisals of the Central University of Finance and Economics. Mr. Liu served as a member of the 10th and 11th Public Offering Review Committee of the CSRC in 2008 and 2009 and a member of the 4th and 5th Merger and Reorganization Committee of the CSRC from 2012 to 2016.

Mr. Liu has served as an independent director of Polaris Bay Group Co., Ltd. (華創陽安股份有限公司) (formerly known as Hebei Baoshuo Co., Ltd. (河北寶碩股份有限公司)) (a company listed on the Shanghai Stock Exchange (stock code: 600155)) since December 2016 and an independent director of Dongfang Electric Co., Ltd. (東方電氣股份有限公司) (a company listed on the Stock Exchange (stock code: 1072) and the Shanghai Stock Exchange (stock code: 600875)) since June 2018. He has also served as an independent director of China Spacesat Co., Ltd. (中國東方紅衛星股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600118)) since November 2014 and was an independent director of Hengxin Shambala Culture Co., Ltd. (恒信東方文化股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 300081)) from June 2015 to May 2020. In addition, he served as an independent non-executive director of Harbin Electric Company Limited (哈爾濱電氣股份有限公司) (a company listed on the Stock Exchange (stock code: 01133)) from December 2009 to December 2016 and also served as an independent supervisor of Qingdao Port International Co., Ltd.* (青島港國際股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601298) and the Stock Exchange (stock code: 6198)) from September 2014 to May 2019.

Mr. Liu has extensive experience in assets appraisal and he is a mineral rights valuer (礦業權評估師) recognized by the Chinese Association of Mineral Resources Appraisers (中國礦業權評估師協會) and is a registered real estate appraiser (註冊房地產估價師) recognized by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部). He is also a certified asset appraiser (資產評估師) recognized by China Appraisal Society (中國資產評估協會).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu obtained a doctorate degree in management studies from Tsinghua University in the PRC in 1999, a master's degree in engineering from Shanghai Jiao Tong University in the PRC in 1995 and a bachelor's degree in Industrial Management and Engineering from Beijing Institute of Technology in the PRC in 1992.

Save as disclosed above, Mr. Liu did not hold any directorship in any listed companies during the last three years.

Mr. Wong Ka Kit (黃家傑), aged 44, was appointed as an independent non-executive Director of our Company in December 2020 and is responsible for providing independent opinion and judgment to our Board.

Mr. Wong serves as the chief executive officer, chief financial officer and a director of Bridgetown Holdings Limited, which is a company listed on NASDAQ (symbol: BTWNU) primarily engaged in the acquisition of, or combining businesses with, selected companies with operations or prospective operations in the technology, financial services, or media sectors or the “new economy sectors” in Southeast Asia. Mr. Wong also serves as the chief executive officer, chief financial officer and a director of Bridgetown 2 Holdings Limited (a company listed on NASDAQ (symbol: BTNB)). Mr. Wong is currently a senior vice president (Mergers and Acquisitions) in Pacific Century Group Holdings (HK) Limited and he has also served in various roles in companies of Pacific Century Group (collectively, “Pacific Century”) which has a primary focus to invest and operate businesses in financial services and technology, media & telecommunications and property industry, including senior vice president (Mergers and Acquisitions) in PCCW Services Limited from July 2007 to December 2008 and senior vice president (Mergers and Acquisitions) in PCPD Services Limited from January 2009 to December 2018. Since 2015, Mr. Wong has served in PineBridge Investments Asia Limited (a portfolio company of Pacific Century) (“PineBridge”) as a consultant to the PineBridge group of companies (with the title of senior managing director) and served as a member of the executive committee of PineBridge from 2015 to 2018. Mr. Wong served as an independent non-executive director of AV Concept Holdings Limited (a company listed on the Stock Exchange, stock code 595) from September 2004 to August 2020. Mr. Wong has also served as a director of CompareAsia Group Capital Limited (which operates a comparison site for financial products in Southeast Asia) since July 2019.

Mr. Wong was a director of Couponxpress Company Limited, a private limited company incorporated in Hong Kong. Couponxpress Company Limited was deregistered on March 13, 2009 by striking off by the Registrar of Companies pursuant to section 291 of the predecessor Companies Ordinance (Cap. 32)^(Note).

Note: The relevant company had ceased to carry on business or operation before the deregistration. As at the time of deregistration, the company was not insolvent, did not have any outstanding liabilities and was not involved in any pending claims. So far as Mr. Wong was aware, the deregistration of the company has not resulted in any punishment or fines imposed by any competent authorities, nor has it resulted in any outstanding or potential claims or liabilities against him or such company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong graduated from the University of Wisconsin–Madison in the United States with a Bachelor of Business Administration degree in 1998. He earned the Chartered Financial Analyst designation from the CFA Institute in 2001, was admitted into Stanford’s Sloan Master program of the Stanford University in the United States in 2007, and completed the Kellogg–HKUST Executive MBA program and was awarded a degree of Master of Business Administration from Northwestern University in the United States and the Hong Kong University of Science and Technology in Hong Kong in 2013.

Save as disclosed above, Mr. Wong did not hold any directorship in any listed companies during the last three years.

Mr. Yau Ka Chi (邱家賜), aged 63, was appointed as an independent non-executive Director of our Company in December 2020 and is responsible for providing independent opinion and judgment to our Board.

Mr. Yau has over 30 years of professional accounting and management experience including 20 years in serving PRC-based enterprises. He had worked for Ernst & Young in its Hong Kong, Toronto and Beijing offices with a primary focus in providing professional services in accounting and audit, initial public offering, and corporate restructuring before retiring in September 2015. When he was with Ernst & Young, Mr. Yau was appointed, among others, as the Professional Practice Director of Greater China from July 2007 to June 2009 and the Assurance Leader for China North Region from July 2010 to June 2014. He was appointed by the CSRC as a technical advisor to its Accounting Department in February 2008, after serving as a member of the 6th Session (2004), 7th Session (2005) and 8th Session (2006) of the Public Offering Review Committee in the CSRC. Prior to that, Mr. Yau was seconded as a full-time technical advisor to the Public Offering Supervision Department of the CSRC between 2001 and 2002.

Mr. Yau has served as an independent non-executive director of Yihai International Holding Ltd. (頤海國際控股有限公司) (stock code: 1579) since June 2016, China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) (Stock code: 2319) since October 2016, China Power International Development Limited (中國電力國際發展有限公司) (stock code: 2380) since December 2016 and HBM Holdings Limited (和鉅醫藥控股有限公司) (stock code: 2142) since June 2021, all of which are companies listed on the main board of the Stock Exchange. Mr. Yau holds a professional diploma in company secretaryship and administration from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in Hong Kong and is a member of the American Institute of Certified Public Accountants, the Illinois CPA Society and the Hong Kong Institute of Certified Public Accountants. Mr. Yau also holds a certified public accountant license issued by the Illinois Department of Financial and Professional Regulation, the United States.

Save as disclosed above, Mr. Yau did not hold any directorship in any listed companies during the last three years.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Xu Tao (徐濤), aged 44, joined our Group in April 2008 and was appointed as the president of sales (銷售總裁) of our Company in December 2020, responsible for overall operation in sales and marketing matters of our Group. He also has been serving as the general manager of Beijing Haidian Mercedes-Benz operated by Beijing BetterLife Star since 2013.

Mr. Xu has approximately 18 years of experience in the automobile industry. Prior to joining our Group, Mr. Xu served as the sales director of Beijing Shouchuang Senmei Auto Trade Ltd.* (北京首創森美汽車貿易有限公司), an authorized dealer for Buick automobiles, from June 2004 to March 2008. Mr. Xu also served as a sales manager of Beijing Yazhijie Century Auto Sales Ltd.* (北京亞之傑世紀汽車銷售有限公司), an authorized dealer for Ford automobiles, from January 2003 to January 2004 and a sales consultant (also in charge of inventory management) of Beijing Yazhijie Auto Trade Ltd.* (北京亞之傑汽車貿易有限責任公司), an authorized dealer for Audi automobiles, from September 2001 to December 2001. Mr. Xu joined Beijing BetterLife Star as a sales director in April 2008, and was promoted as the general manager in May 2013. Under the leadership of Mr. Xu, Beijing BetterLife Star has received the Top 5 Best Warranty Business Performance Award 2019 in Northern China by Beijing Mercedes-Benz Sales Service Co., Ltd. and the best retailer dealer for Start Elite second-hand vehicles in Northern China in the first half 2010 by Mercedes-Benz.

Mr. Xu graduated from Beijing University of Technology with a bachelor's degree in Automobile and Internal Combustion Engine in July 2000. Mr. Xu did not hold any directorship in any listed companies during the last three years.

Mr. Luo Chao (羅超), aged 50, joined our Group in April 2002 and was appointed as the president of after-sales (售後總裁) of our Company in December 2020, responsible for overall management of vehicles after-sales market and customers of our Group. He has also been serving as the general manager of Beijing Yizhuang Porsche Center operated by our Group since July 2016.

Mr. Luo has approximately 19 years of experience of serving in our Group and in the automobile industry. Between April 2002 and February 2004, Mr. Luo was the after-sales service director of Beijing BetterLife Group. Mr. Luo joined Beijing BetterLife Auto Trade as after-sales service director in March 2004 and was promoted and has served as the general manager from July 2010 to May 2013. Between May 2013 and July 2016, Mr. Luo was the general manager of Beijing BetterLife International. Under the leadership of Mr. Luo, Beijing Yizhuang Porsche Center operated by our Group received various awards and recognitions, including Sales Excellence Award of Porsche Retail Competition of the Northern District of China in 2017, 2018 and 2019.

Mr. Luo completed an online undergraduate program offered by the University of International Business and Economics in International Trade in the PRC in January 2011. Mr. Luo did not hold any directorship in any listed companies during the last three years.

DIRECTORS AND SENIOR MANAGEMENT

Except as disclosed in this prospectus, there are no other matters in respect of each of our Directors and senior management that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

COMPANY SECRETARY

Mr. Chau Kwok Keung (鄒國強), aged 44, is an executive Director and was appointed as the company secretary and an authorized representative of our Company in December 2020. For details of Mr. Chau's biography, please refer to "Board of Directors — Executive Directors" above in this section.

BOARD COMMITTEES

Audit Committee

We established an Audit Committee pursuant to a resolution of our Directors passed on June 17, 2021, with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendation to our Board on the appointment and removal of external auditor, and to assist our Board in fulfilling its oversight responsibilities in relation to our Group's financial reporting, internal control structure, risk management processes and external audit functions, and corporate governance responsibilities. The Audit Committee consists of three members, being Mr. Yau Ka Chi, Mr. Liu Dengqing and Mr. Wong Ka Kit, and Mr. Yau Ka Chi is the chairman of our Audit Committee.

Remuneration Committee

We established a Remuneration Committee pursuant to a resolution of our Directors passed on June 17, 2021, with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are mainly to evaluate and make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. The Remuneration Committee consists of three members, being Mr. Wong Ka Kit, Mr. Chou Patrick Hsiao-Po and Mr. Liu Dengqing, and Mr. Wong Ka Kit is the chairman of our Remuneration Committee.

Nomination Committee

We established a Nomination Committee pursuant to a resolution of our Directors passed on June 17, 2021, with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of the Nomination Committee are mainly to make recommendations to our Board

DIRECTORS AND SENIOR MANAGEMENT

regarding candidates to fill vacancies on the Board. The Nomination Committee consists of three members, comprising Mr. Chou Patrick Hsiao-Po, Mr. Liu Dengqing and Mr. Yau Ka Chi, and Mr. Chou Patrick Hsiao-Po is the chairman of our Nomination Committee.

Strategic Development Committee

We established a Strategic Development Committee pursuant to a resolution of our Directors passed on June 17, 2021, with written terms of reference. The primary duties of the Strategic Development Committee are mainly to formulate the operation goals and long-term development strategies of our Group, supervise and inspect the implementation of annual operating plans, evaluate and make proposals on any major capital operation or investment. The Strategic Development Committee consists of three members, being Mr. Chou Patrick Hsiao-Po, Mr. Wong Ka Kit and Ms. Sun Jing, and Mr. Chou Patrick Hsiao-Po is the chairman of our Strategic Development Committee.

Board Diversity

We have adopted a board diversity policy (the “Board Diversity Policy”) which sets out the objective and approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board. The Board Diversity Policy provides that our Company should endeavor to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of our business strategy. Pursuant to the Board Diversity Policy, selection of candidates for Directors will be based in a range of diversity perspectives, including but not limited to professional experience, gender, age, culture, independence, educational background, knowledge, expertise and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board. Our Board believes that such merit-based appointments will best enable our Company to serve the Shareholders and other stakeholders going forward.

Our Board comprises seven members, including four executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including management and strategic development, finance and investment and accounting experiences in addition to vehicle-related business. Furthermore, our Board has a wide range of age, ranging from 44 years old to 63 years old, and comprises two female members and five male members. We also have a good mix of new and experienced Directors that three of our executive Directors have joined our Group for more than 10 years, who have valuable knowledge and insights of our Group’s business over the years, while the other Directors are expected to bring in fresh ideas and new perspectives to our Group. Our Nomination Committee will: (i) report annually, in the corporate governance report contained in our annual report, on the Board’s composition under diversified perspectives, and monitor the implementation of our Board Diversity Policy; and (ii) review our Board Diversity Policy, as appropriate, to ensure effectiveness of the policy and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION POLICY

We value our employees and recognize the importance of a good relationship with our employees. The remuneration to our employees includes salaries and allowances.

Our Group offers competitive remuneration packages to our Directors, the aggregate amounts of emoluments (including fees, salaries, other benefits and scheme contribution) paid to our Directors for the years ended December 31, 2018, 2019 and 2020 were RMB3,022,000, RMB3,297,000 and RMB4,306,000, respectively. For the years ended December 31, 2018, 2019 and 2020, the aggregate amounts of emoluments (including fees, salaries, other benefits and scheme contribution) paid to the five highest paid individuals, who were not Directors, were RMB1,659,000, RMB2,317,000 and RMB2,561,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Furthermore, none of our Directors had waived any remuneration during the Track Record Period. The primary goal of the remuneration policy with regard to the remuneration packages of our Directors is to enable us to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our Directors remuneration packages include basic salaries and discretionary bonuses.

Under the arrangements currently in force, we estimate that the aggregate amounts of emoluments (including salaries and other benefits, retirement benefit scheme contribution but excluding discretionary bonus) payable to our Directors for the financial year ending December 31, 2021 will be approximately RMB6.30 million.

We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff.

COMPLIANCE ADVISOR

Our Company has appointed Maxa Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise our Company on the following matters:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share buy-backs;

DIRECTORS AND SENIOR MANAGEMENT

- (3) where we propose to use the proceeds of 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
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

COMPLIANCE WITH THE CODE PROVISIONS OF APPENDIX 14 TO THE LISTING RULES

The code provision A.2.1 of the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Chou is the chairman of the Board and the chief executive officer of our Company. As Mr. Chou has been managing our Group's business and overall strategic planning for over 20 year, our Directors consider that the vesting of the roles of chairman and chief executive officer in Mr. Chou is beneficial to the business prospects and management of our Group by ensuring consistent leadership within our Group, aligning the directions and approaches on the board level and execution level and enabling more effective and efficient overall strategic planning for our Group. Taking into account all the corporate governance measures that we are going to implement upon Listing, our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Accordingly, our Company had not segregated the roles of its chairman and chief executive officer. Our Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole.

Save as disclosed above, as of the Latest Practicable Date and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, the Directors are not aware of any deviation from provisions in the Corporate Governance Code under Appendix 14 to the Listing Rules.

UNDERWRITING

HONG KONG UNDERWRITERS (IN ALPHABETICAL ORDER)

BOCOM International Securities Limited
DBS Asia Capital Limited
First Shanghai Securities Limited
Futu Securities International (Hong Kong) Limited
Huajin Securities (International) Limited
Huatai Financial Holdings (Hong Kong) Limited
Macquarie Capital Limited
Maxa Capital Limited
Valuable Capital Limited
UOB Kay Hian (Hong Kong) Limited
uSmart Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on June 29, 2021. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions set out in this prospectus and the Application Forms.

Subject to (a) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Shares to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) and such approval not having been withdrawn, and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly or jointly and severally to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for termination

Macquarie (for itself and on behalf of Huatai and the Hong Kong Underwriters) shall be entitled by notice in writing to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:
 - (i) any breach of, or any matter or event or circumstance rendering untrue, incorrect, inaccurate or misleading in any respect, any of the warranties under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
 - (ii) any breach of any of the obligations or undertakings imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (iii) that any statement contained in any of this prospectus, the Application Forms, the application proof of this prospectus, the post hearing information pack, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering or the Global Offering (collectively, the “Offer Related Documents”) (including any supplement or amendment thereto) was, when it was issued, or has or may become, untrue, incorrect, inaccurate, incomplete in any material aspects, or misleading or deceptive in any respect, or that any estimate/forecast, expression of opinion, intention or expectation contained in any of the Offer Related Documents (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
 - (iv) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, result in a misstatement in, or constitute a misstatement in, or omission from, any of the Offer Related Documents (including any supplement or amendment thereto); or

UNDERWRITING

- (v) any matter, event, act or omission which gives or is likely to give rise to any liability of our Company or Mr. Chou or Chou Dynasty or the executive Directors out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties under the Hong Kong Underwriting Agreement or the International Underwriting Agreement and/or pursuant to the indemnities given by any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
 - (vi) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition (financial or otherwise), or performance, of our Group as a whole and/or any member of our Group which has a substantial business operation (including any material supplier or customer of our Group terminating or giving notice of its intention to terminate of its relationship with our Group or any litigation or claim of any third party being threatened or instigated against any member of our Group), whether or not arising in the ordinary course of business, as determined by Macquarie (for itself and on behalf of Huatai) in its sole and absolute discretion; or
 - (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue and to be issued or sold (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option and the Shares to be issued or sold pursuant to the exercise of the options which may be granted under the Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions), revoked or withheld; or
 - (viii) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
 - (ix) any expert named in this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters 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; or
- (b) there shall have developed, occurred, happened or come into effect:
- (i) any change or development involving a prospective change, or any event or series of events resulting or likely to result in any change or development involving a prospective change, in local, national, regional or international, financial, economic, political, military, industrial, fiscal, legal, regulatory,

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currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency or currencies), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands or the British Virgin Islands, or any other jurisdiction relevant to any member of our Group (each a “Relevant Jurisdiction”); or

- (ii) any new law or regulation or any change, development or announcement or publication involving a prospective change in existing laws or regulations, or any change, development or announcement or publication 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) the imposition or declaration of:
 - (a) any moratorium, suspension, restriction or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (b) any general moratorium on commercial banking activities or foreign exchange trading or securities settlement or clearance services in Hong Kong, New York, London, the PRC or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (iv) (A) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies and a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars or RMB is linked to any foreign currency or currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; and (B) any change or development involving a prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the Shares; or

UNDERWRITING

- (v) any litigation, or dispute, or claim, or investigation or actions being announced, threatened or instigated against any member of our Group or Mr. Chou or Chou Dynasty or the executive Directors or any Directors not specifically disclosed in this prospectus; or
- (vi) a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (vii) any adverse change or development involving a prospective adverse change (whether permanent or not) in the assets, liabilities, conditions, business affairs, prospects (financial or otherwise), earnings, results of business operations, profits, losses or financial or trading position of or our Group taken as a whole and/or any member of the Group which has a substantial business operation; or
- (viii) the imposition of economic sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (ix) a Director or any senior management as disclosed in this prospectus being charged with an indictable offence or prohibited by operation of laws or regulations or otherwise disqualified from taking part in the management of a company; or
- (x) Mr. Chou vacating his office as the chairman, the chief executive officer or an executive Director of our Company; or
- (xi) the commencement by any administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign or supranational (“Authority”) of any investigation, claim, proceedings or other action, or announcing an intention to investigate or take such action, against any Director or any senior management as disclosed in this prospectus; or
- (xii) a contravention by any member of our Group or any Director of the Listing Rules or applicable laws, rules or regulations; or
- (xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including up to 22,500,000 additional Shares to be purchased by, or by investors procured by, the International Underwriters from our Company pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or

UNDERWRITING

- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws or regulations; or
- (xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) pursuant to the Companies (WUMP) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvi) any local, national, regional or international event or circumstance or series of events or circumstances in the nature of force majeure, including, without limitation, acts of government, orders of any courts, declaration of a national or international emergency or war, calamity, crisis, economic sanctions, labour disputes, strikes, lock-outs, riots, public disorder, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), outbreak of escalation of hostilities (whether or not war is declared), outbreak of diseases (including infectious diseases) or epidemics or pandemics including, but not limited to, Severe Acute Respiratory Syndrome (SARS), H7N9, MERS, H1N1, H5N1 and COVID-19 and such related/mutated forms or accident or interruption or delay in transportation and any local, national, regional or international outbreak or other state of emergency or calamity or crisis; or
- (xvii) any change or a prospective change in, or a materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xviii) any order or petition for the winding up or liquidation of any member of our Group or any composition, compromise or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding up or liquidation of any member of our Group is passed or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xix) a demand by any creditor for repayment or payment of any member of our Group’s indebtedness prior to its stated maturity;

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which, individually or in the aggregate, in the sole and absolute opinion of Macquarie (for itself and on behalf of Huatai and the Hong Kong Underwriters),

- (i) has or will or may have or is likely to have a material adverse effect, whether directly or indirectly, on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition (financial or otherwise), or performance of our Group as a whole; or
- (ii) has or will or may have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the Offer Shares in the secondary market; or
- (iii) makes or will or may make or is likely to make it inadvisable or inexpedient or impracticable for any material part of Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice of the Global Offering, the preliminary offering circular or the final offering circular of the International Offering; or
- (iv) has or will or may have or is likely to have the effect of making any part of Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or materially delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange pursuant to the Listing Rules

By our Company

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering, any exercise of the options which may be granted under the Share Option Scheme or any of the circumstances prescribed by Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that 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 at any time within the period of six months from the Listing Date (the “**First Six-month Period**”) (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), we will not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options, rights, interests or encumbrances over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or have any intention to do so.

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By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to (i) the Global Offering, (ii) any transfer of Shares pursuant to any exercise of the Over-allotment Option (if applicable), or (iii) the Stock Borrowing Agreement, he/it shall not and shall procure that the relevant registered holder(s) of the Shares will not:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the expiration date of the First Six-month Period, 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 or securities of our Company in respect of which he/it is shown in this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the First Six-month Period expires (the “Second Six-month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities 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/it would cease to be our Controlling Shareholder (as defined in the Listing Rules).

Each of our Controlling Shareholders has also undertaken to the Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any Shares or other securities of our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or other securities of our Company will be disposed of, immediately inform us in writing of any such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of the Controlling Shareholders.

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Undertakings to the Hong Kong Underwriters

Pursuant to the Hong Kong Underwriting Agreement, our Company and our Controlling Shareholders have undertaken as follows:

Undertakings by our Company

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), the issue of options or Shares under the Share Option Scheme or the issue of Shares pursuant to the Capitalization Issue, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date of the expiry of the First Six-month Period, we have undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Hong Kong Underwriters not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Macquarie (for itself and on behalf of Huatai, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and 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, assign, 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 any mortgage, charge, pledge, lien, or other security interest or any option, restriction, right of first refusal, right of pre-emption, defect, or other third party claim, right, interest or preference or any other encumbrance of any kind (“Encumbrance”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company, as applicable, or any interest (legal or beneficial) 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 other securities of our Company, as applicable), or deposit any Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; 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 (legal or beneficial) of any Shares or other securities of our Company, or any interest (legal or beneficial) in any of the foregoing (including, without limitation, any securities convertible into or

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exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company, as applicable); or

- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to, or agree to, or announce any intention to, effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a) or (b) or (c) above is to be settled by delivery of Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the allotment and issue of such Shares or other securities of our Company, as applicable, will be completed within the First Six-month Period). In the event that, at any time during the Second Six-month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company. Each of Mr. Chou, Chou Dynasty and executive Directors has undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph.

Undertakings by our Controlling Shareholders

Except for any transfer of Shares pursuant to the Stock Borrowing Agreement, each of Mr. Chou and Chou Dynasty has undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Hong Kong Underwriters that, without the prior written consent of the Company, the Sole Sponsor and Macquarie (for itself and on behalf of Huatai, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) none of them will at any time during the First Six-month Period:
 - i. sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, assign, 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 other securities of our Company, as applicable, or any interest (legal or beneficial) in any of the foregoing (including, without limitation, any securities convertible into or

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exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company, as applicable), or deposit any Shares or other securities of our Company, as applicable, with a depository in connection with the issue of depository receipts; 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 (legal or beneficial) of any Shares or other securities of our Company, as applicable, or any interest (legal or beneficial) 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 other securities of our Company, as applicable); or
- iii. enter into any transaction with the same economic effect as any transaction specified in paragraph (a)(i) or (ii) above; or
- iv. offer to, or agree to, or announce any intention to, effect any transaction specified in paragraph (a)(i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraph (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the allotment and issue of such Shares or other securities of our Company, as applicable, will be completed within the First Six-month Period);

- (b) he/it will not, at any time during the Second Six-month Period, enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) 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/it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company;
- (c) until the expiry of the Second Six-month period, in the event that he/it enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the Shares or other securities of our Company; and

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- (d) it shall, and shall procure that any nominee acting on its behalf shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by any nominee acting on its behalf of any Shares or other securities of the Company.

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

International Offering

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out in it, the International Underwriters would agree severally but not jointly or jointly and severally to procure purchasers for, or failing which to purchase, the International Offer Shares. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

Under the International Underwriting Agreement, our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by Macquarie (for itself and on behalf of Huatai and the International Underwriters) at any time from the Listing Date up to (and including) Saturday, August 7, 2021, the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to 22,500,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price to, among other things, cover over-allocations in the International Offering, if any.

Commissions and expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.0% of the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 2.0% of the Offer Price of the International Offer Shares offered under the International Offering. In addition, we may pay to Macquarie (for its account only) a discretionary incentive fee of up to 0.5% of the Offer Price multiplied by the total number of Offer Shares (subject to the Over-allotment Option).

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The aggregate commissions and fees (other than the discretionary fee), together with listing fees, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK\$64.9 million (assuming an Offer Price of HK\$4.40, being the mid-point of the indicative Offer Price range, and assuming that the Over-allotment Option is not exercised) in total and are payable by us.

UNDERWRITERS' INTERESTS IN OUR GROUP

Other than as disclosed in this prospectus, the obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, as at the Latest Practicable Date, none of the Underwriters has any shareholding interest 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 Hong Kong Public Offering and the International Offering (together, the "Syndicate Members") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

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 account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving,

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directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the 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 the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering”. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, 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 Stabilizing 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 stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open markets; 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.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

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:

- (i) the Hong Kong Public Offering of initially 15,000,000 Hong Kong Offer Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described below in “Hong Kong Public Offering” below in this section; and
- (ii) the International Offering of an aggregate of initially 135,000,000 International Offer Shares (subject to reallocation and the Over-allotment Option as mentioned below) to persons outside the United States (including to professional and institutional investors, corporate investors and other investors who we anticipate to have a sizable demand for the International Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 15,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of the Hong Kong Offer Shares will represent 2.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in “Conditions of the Hong Kong Public Offering” below in this section.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of 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. Such allocation could, where appropriate, consist of balloting, which could 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.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally (to the nearest board lot) into two pools for allocation purposes: 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 million (excluding the brokerage, SFC transaction levy and 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 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) up to the total value of pool B.

Investors should be aware that the allocation ratios for applications in pool A and applications in pool B may be different. If the Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, the 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 purposes of the 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 but not from both pools. Multiple or suspected multiple applications and any application for more than 7,500,000 Hong Kong Offer Shares, being the number of Hong Kong Offer Shares initially available under each pool, are liable to be rejected.

Reallocation and clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation.

In accordance with the clawback requirements set out in paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEx-GL91-18 issued by the Stock Exchange (as amended or supplemented from time to time by the Stock Exchange), if the Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be

STRUCTURE OF THE GLOBAL OFFERING

increased to 45,000,000, 60,000,000 and 75,000,000 Offer Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option and the issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme). In such cases, the number of Offer Shares allocated to the International Offering will be correspondingly reduced, in such manner as Macquarie (for itself and on behalf of Huatai) deems appropriate, and such additional Offer Shares will be allocated between pool A and pool B.

If (i) the Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100% or more, but less than 15 times, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering; or (ii) the Offer Shares under the International Offering are not fully subscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100% or more of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, Macquarie (for itself and on behalf of Huatai) may, at its discretion, reallocate the Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that (i) the maximum number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall not be more than 30,000,000 Offer Shares, representing double the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and (ii) the Offer Price shall be determined at the lower end of the Offer Price range.

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 discretion of Macquarie (for itself and on behalf of Huatai).

Applications

Macquarie (for itself and on behalf of Huatai and 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 Macquarie (for itself and on behalf of Huatai) so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making 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 International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is breached and/or untrue (as the case may be) or he has been or will be placed or allocated International Offer Shares under the International Offering.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$4.80 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “Pricing and Allocation” below in this section, is less than the maximum price of HK\$4.80 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to “How to Apply for Hong Kong Offer Shares” in this prospectus for further details.

INTERNATIONAL OFFERING

Number of Offer Shares initially offered

We are initially offering 135,000,000 Offer Shares under the International Offering representing 90% of the total number of Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent 22.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

Allocation

The International Offering will include selective marketing of Offer Shares to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “Pricing and Allocation” below in this section and based on a number of factors, including the level and timing of demand, the 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 Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the 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.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriters, exercisable by Macquarie (for itself and on behalf of Huatai and the International Underwriters).

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by Macquarie (for itself and on behalf of Huatai and the International Underwriters) at any time within 30 days after the last day for lodging of applications under the Hong Kong Public Offering (the last day for the exercise of the Over-allotment Option being Saturday, August 7, 2021), to require us to allot and issue up to 22,500,000 additional Offer Shares representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. If the Over-allotment Option is exercised, an announcement will be made.

STOCK BORROWING ARRANGEMENT

To facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 22,500,000 Shares, representing 15% of the Offer Shares (being the maximum number of Offer Shares which may be offered upon exercise of the Over-allotment Option) initially being offered under the Global Offering, from Chou Dynasty to cover over-allocations through the stock borrowing arrangement under the Stock Borrowing Agreement, or acquire Shares from other sources.

If such stock borrowing arrangement with Chou Dynasty is entered into, it will only be effected by the Stabilizing Manager or its agent for settlement of over-allocations in the International Offering. The same number of Offer Shares so borrowed must be returned to Chou Dynasty or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been sold. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules, and regulatory requirements. No payment will be made to Chou Dynasty by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. 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 including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the initial public offer price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it) as stabilizing manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate Shares or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimising any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

Specifically, prospective applicants and the investors in the Offer Shares should note that:

- (a) the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Saturday, August 7, 2021, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- (e) the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and

STRUCTURE OF THE GLOBAL OFFERING

- (f) stabilizing bids or transactions 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 paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through the Stock Borrowing Agreement as detailed above or a combination of these means.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of International Offer 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, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purposes of the various offerings under the Global Offering is expected to be fixed on the Price Determination Date, which is expected to be on or around Thursday, July 8, 2021, and, in any event, no later than Saturday, July 10, 2021, by agreement between our Company and Macquarie (for itself and on behalf of Huatai and the Underwriters), and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$4.80 per Offer Share and is expected to be not less than HK\$4.00 per Offer Share 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.**

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, Macquarie (for itself and on behalf of Huatai and the Underwriters) considers the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be inappropriate, Macquarie (for

STRUCTURE OF THE GLOBAL OFFERING

itself and on behalf of Huatai and the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered pursuant to the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or before 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 on Thursday, July 8, 2021, cause to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.blchina.com notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by Macquarie (for itself and on behalf of Huatai and the Underwriters) and the Company, will be fixed within such revised Offer Price range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

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 discretion of Macquarie (for itself and on behalf of Huatai). Allocation of the International Placing Shares under the International Placing will be determined by Macquarie (for itself and on behalf of Huatai) 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 Offer Shares after the Listing. Such allocation may be made to professional, institutional or corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by applicants. The allocation of the 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 the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

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The final Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the basis of allocation of the Hong Kong Offer Shares, and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in “How to Apply for Hong Kong Offer Shares — F. Publication of Results” in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, among other things:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option and the Shares to be issued upon the exercise of any options which may be granted under the Share Option Scheme) on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- (ii) the Offer Price having been duly agreed between us and Macquarie (for itself and on behalf of Huatai and the Underwriters) and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Friday, 30 July, 2021, being the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and Macquarie (for itself and on behalf of Huatai and the Underwriters) on or before Saturday, July 10, 2021, the Global Offering will not proceed.

STRUCTURE OF THE GLOBAL OFFERING

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other 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 the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.blchina.com on the next day following such lapse. In such case, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares – I. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects and (ii) none of the Underwriting Agreements has been terminated in accordance with its terms.

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, July 15, 2021, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, July 15, 2021.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares will be 6909.

HOW TO APPLY FOR HONG KONG OFFER SHARES

A. APPLICATIONS 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;
- 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, Macquarie (for itself and on behalf of Huatai), 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 for Hong Kong Offer Shares

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 (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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, Macquarie (for itself and on behalf of Huatai) may accept it at its discretion, and on any conditions it thinks fit, including evidence of the attorney's authority.

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 of our subsidiaries;
- you are a director or chief executive officer of our Company and/or any of our subsidiaries;
- you are 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;
- you are a close associate (as defined in the Listing Rules) of any of the above persons; and
- you 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

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **White Form eIPO** service at 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Wednesday, June 30, 2021 until 12:00 noon on Thursday, July 8, 2021 from:

- (1) any of the following addresses of the Hong Kong Underwriters:

| | |
|--|---|
| Macquarie Capital Limited | Level 18, One International Finance Centre 1 Harbour View Street Central Hong Kong |
| Huatai Financial Holdings (Hong Kong) Limited | 62/F, The Center 99 Queen's Road Central Hong Kong |
| BOCOM International Securities Limited | 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong |
| UOB Kay Hian (Hong Kong) Limited | 6/F, Harcourt House 39 Gloucester Road Hong Kong |
| DBS Asia Capital Limited | 73rd Floor, The Center 99 Queen's Road Central Hong Kong |
| Futu Securities International (Hong Kong) Limited | Unit C1-2, 13/F, United Centre No. 95 Queensway Admiralty Hong Kong |
| First Shanghai Securities Limited | 19/F, Wing On House 71 Des Voeux Road Central Hong Kong |
| Maxa Capital Limited | Unit 1908, Harbour Center 25 Harbour Road Wanchai Hong Kong |

HOW TO APPLY FOR HONG KONG OFFER SHARES

| | |
|--|---|
| Huajin Securities (International) Limited | Suite 1101, 11/F, Champion Tower 3 Garden Road Central Hong Kong |
|--|---|

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|--------------------------|--|
| Valuable Capital Limited | Room 3601, 36th Floor China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong |
|--------------------------|--|

| | |
|---------------------------|---|
| uSmart Securities Limited | Unit 2606-07, 26/F FWD Financial Centre 308 Des Voeux Road Central Hong Kong |
|---------------------------|---|

- (2) any of the following branches of the receiving bank for the Hong Kong Public Offering:

Bank of China (Hong Kong) Limited

| District | Branch Name | Address |
|------------------|-----------------------------|--|
| Hong Kong Island | 409 Hennessy Road Branch | 409-415 Hennessy Road Wan Chai Hong Kong |
| Kowloon | Lam Tin Branch | Shop 12, 49 Kai Tin Road Lam Tin Kowloon |
| | Prince Edward Branch | 774 Nathan Road Kowloon |
| New Territories | Tai Wai Branch | 74-76 Tai Wai Road Sha Tin New Territories |
| | Texaco Road Branch | Shop A112, East Asia Gardens 36 Texaco Road Tsuen Wan 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 Wednesday, June 30, 2021 until 12:00 noon on Thursday, July 8, 2021 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 check or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — BETTERLIFE PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

- Wednesday, June 30, 2021 – 9:00 a.m. to 5:00 p.m.
- Friday, July 2, 2021 – 9:00 a.m. to 5:00 p.m.
- Monday, July 5, 2021 – 9:00 a.m. to 5:00 p.m.
- Tuesday, July 6, 2021 – 9:00 a.m. to 5:00 p.m.
- Wednesday, July 7, 2021 – 9:00 a.m. to 5:00 p.m.
- Thursday, July 8, 2021 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, July 8, 2021, the last day for applications, or such later time as described in "E. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

4. Applying through White Form eIPO Service

General

Individuals who meet the criteria in "A. Application for Hong Kong Offer Shares — 2. Who can apply for Hong Kong Offer Shares" above, 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. 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 Wednesday, June 30, 2021 until 11:30 a.m. on Thursday, July 8, 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, July 8, 2021 or such later time as described in “E. Effects of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, 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 the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

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 (WUMP) 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 (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Commitment to sustainability

The obvious advantage of **White Form eIPO** is to save the use of papers 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 “**BetterLife Holding Limited**” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

5. 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 monies 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 +852 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 the above 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.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and the Hong Kong Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 its agent;
 - confirm that you understand that our Company, our Directors and the Joint Global Coordinators 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 such other registers as required under the Articles of Association, and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- 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 and will not rely on any other information or representations, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, their respective directors, officers, employees, partners, representatives, advisers and agents, and any other persons or 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, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, the Hong Kong Share Registrar, the receiving bank and/or their respective directors, officers, employees, partners, representatives, advisers 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 a 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 a 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 (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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 results of the Hong Kong Public Offering;
- 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 giving **electronic application instructions** 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 Memorandum and Articles of Association, the Companies (WUMP) Ordinance and the Cayman Companies Act; and
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with 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 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 Stock Exchange trading fee) by crediting your designated bank account; and

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- 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 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 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.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Wednesday, June 30, 2021 – 9:00 a.m. to 8:30 p.m.
- Friday, July 2, 2021 – 8:00 a.m. to 8:30 p.m.
- Saturday, July 3, 2021 – 8:00 a.m. to 1:00 p.m.
- Monday, July 5, 2021 – 8:00 a.m. to 8:30 p.m.
- Tuesday, July 6, 2021 – 8:00 a.m. to 8:30 p.m.
- Wednesday, July 7, 2021 – 8:00 a.m. to 8:30 p.m.
- Thursday, July 8, 2021 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, June 30, 2021 until 12:00 noon on Thursday, July 8, 2021 (24 hours daily, except on Thursday, July 8, 2021, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, July 8, 2021 the last application day or such later time as described in “E. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section.

Note:

⁽¹⁾ These 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.

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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 (WUMP) 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 (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, the Hong Kong Share Registrar, the receiving bank and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. 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.

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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.

“**Unlisted company**” means a company with no equity securities listed on the 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).

B. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

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 Joint Global Coordinators (or their 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 of Association;
- (ii) agree to comply with the Memorandum and Articles of Association, the Companies (WUMP) Ordinance and the Cayman Companies Act;
- (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;

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- (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 Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, their respective directors, officers, employees, partners, representatives, advisers and agents, and any other persons or parties 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 Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, the Hong Kong Share Registrar, the receiving bank and/or their respective directors, officers, employees, partners, representatives, advisers and agents 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 Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Underwriters nor any of their respective directors, officers, employees, partners, representatives, advisers and agents 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;

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- (xii) represent, warrant and undertake that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of 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 such other registers as required under the Articles of Association, and our Company and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(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 have fulfilled the criteria mentioned in "Personal Collection" section in this prospectus to collect the Share certificate(s) and/or refund check(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) understand that our Company, our Directors and the Joint Global Coordinators 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;
- (xviii) (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
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (a) 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 (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

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Additional Instructions for **YELLOW** Application Forms

You may refer to the **YELLOW** Application Form for details.

C. WARNING FOR ELECTRONIC APPLICATIONS

The application for 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 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, the Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager 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, Thursday, July 8, 2021.

D. 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 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 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the **WHITE** or **YELLOW** 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 (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

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For further details on the Offer Price, see “Structure of the Global Offering — Pricing and Allocation” in this prospectus.

E. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS 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;
- a “black” rainstorm warning; and/or
- an Extreme Condition

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 8, 2021. 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 and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, July 8, 2021 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or an Extreme Condition in force in Hong Kong that may affect the dates mentioned in “Expected Timetable” in this prospectus, an announcement will be made in such event.

F. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications 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 Wednesday, July 14, 2021 on our Company’s website at www.blchina.com and the website of the 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.blchina.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, July 14, 2021;
- from the designated results of allocations website at www.iporeresults.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 Wednesday, July 14, 2021 to 12:00 midnight on Tuesday, July 20, 2021;

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- by telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Wednesday, July 14, 2021 to Friday, July 16, 2021 and Monday, July 19, 2021; and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, July 14, 2021 to Friday, July 16, 2021 at the designated branches of the receiving bank.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocation 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. Further details are contained in “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.

G. 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 via the **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 a 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 (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) 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.

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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, Macquarie (for itself and on behalf of Huatai), 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.

(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 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 as described in “A. Applications for Hong Kong Offer Shares — 6. How Many Applications Can You Make” above in this section;
- 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 check or banker’s cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

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- our Company or Macquarie (for itself and on behalf of Huatai) believes that by accepting your application, it 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.

H. 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\$4.80 per Offer Share (excluding brokerage, SFC transaction levy and 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 Stock Exchange trading fee, will be refunded, without interest or the check or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, July 14, 2021.

I. DISPATCH/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 check(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

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Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and 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 check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

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 Wednesday, July 14, 2021. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, July 15, 2021 provided that the Global Offering has become unconditional in all respects and none of the Underwriting Agreements has been terminated in accordance with its terms. 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 check(s) and/or Share certificate(s) from the Hong Kong Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, July 14, 2021 or such other date as notified by us on the website of our Company at www.blchina.com and on the website of the Stock Exchange at www.hkexnews.hk.

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 authorisation 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 check(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

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If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, July 14, 2021, 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 for collecting refund check(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) will be sent to the address on the relevant Application Form on or before Wednesday, July 14, 2021, by ordinary post and at your own risk.

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 Wednesday, July 14, 2021, 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 "F. Publication of Results" above in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, July 14, 2021 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. 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.

(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 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, July 14, 2021, or such other

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date as notified by our Company on the website of our Company at www.blchina.com and on the website of the Stock Exchange at www.hkexnews.hk as the date of dispatch/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 Wednesday, July 14, 2021 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 dispatched 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 dispatched to the address as specified in your application instructions in the form of refund check(s) by ordinary post at your own risk.

(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 Wednesday, July 14, 2021, 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 "F. Publication of Results" above in this section on Wednesday, July 14, 2021. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, July 14, 2021 or such other date as determined by HKSCC or HKSCC Nominees.

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- 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 Wednesday, July 14, 2021. 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.
- 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 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 Wednesday, July 14, 2021.

J. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the 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 the 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 adviser 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.

The following is the text of a report on BetterLife Holding Limited, prepared for the purpose of incorporation in this prospectus received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong.



27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BETTERLIFE HOLDING LIMITED AND MACQUARIE CAPITAL LIMITED

INTRODUCTION

We report on the historical financial information of BetterLife Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-77, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2018, 2019 and 2020 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020 and the statements of financial position of the Company as at 31 December 2018, 2019 and 2020 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-77 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 June 2021 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' 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 accountants’ 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 accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, 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 accountants’ report, a true and fair view of the financial position of the Group and the Company as at 31 December 2018, 2019 and 2020 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE 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 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

30 June 2021

I HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

| | Notes | Year ended 31 December | | |
|-----------------------------------|-------|------------------------|--------------------|--------------------|
| | | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| REVENUE | 5 | 8,409,178 | 8,178,781 | 8,533,130 |
| Cost of sales | | <u>(7,583,982)</u> | <u>(7,396,583)</u> | <u>(7,669,517)</u> |
| Gross profit | | 825,196 | 782,198 | 863,613 |
| Other income and gains | 5 | 232,896 | 140,271 | 168,481 |
| Selling and distribution expenses | | (344,339) | (365,623) | (360,536) |
| Administrative expenses | | (191,196) | (153,222) | (192,394) |
| Other expenses | | (12,050) | (17,178) | (17,898) |
| Finance costs | 7 | <u>(83,549)</u> | <u>(56,242)</u> | <u>(41,054)</u> |
| PROFIT BEFORE TAX | 6 | 426,958 | 330,204 | 420,212 |
| Income tax expense | 10 | <u>(156,775)</u> | <u>(105,316)</u> | <u>(113,721)</u> |
| PROFIT FOR THE YEAR | | <u>270,183</u> | <u>224,888</u> | <u>306,491</u> |
| Attributable to: | | | | |
| Owners of the parent | | 206,951 | 159,857 | 234,984 |
| Non-controlling interests | | <u>63,232</u> | <u>65,031</u> | <u>71,507</u> |
| | | <u>270,183</u> | <u>224,888</u> | <u>306,491</u> |
| EARNINGS PER SHARE | | | | |
| ATTRIBUTABLE TO | | | | |
| ORDINARY EQUITY | | | | |
| HOLDERS OF THE PARENT | | | | |
| Basic and diluted | 12 | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Year ended 31 December | | |
|--|------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| PROFIT FOR THE YEAR | <u>270,183</u> | <u>224,888</u> | <u>306,491</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | <u>(1,418)</u> | <u>135</u> | <u>(221)</u> |
| Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | <u>(1,418)</u> | <u>135</u> | <u>(221)</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX | <u>(1,418)</u> | <u>135</u> | <u>(221)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>268,765</u> | <u>225,023</u> | <u>306,270</u> |
| Attributable to: | | | |
| Owners of the parent | <u>205,533</u> | <u>159,992</u> | <u>234,763</u> |
| Non-controlling interests | <u>63,232</u> | <u>65,031</u> | <u>71,507</u> |
| | <u>268,765</u> | <u>225,023</u> | <u>306,270</u> |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Notes | As at 31 December | | |
|---|-------|----------------------|----------------------|----------------------|
| | | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 13 | 351,666 | 348,308 | 335,015 |
| Right-of-use assets | 15 | 338,266 | 332,159 | 313,948 |
| Goodwill | 16 | 199,715 | 199,715 | 210,396 |
| Intangible assets | 17 | 561,934 | 541,028 | 549,120 |
| Financial assets at fair value through profit or loss | 19 | 10,000 | 10,000 | – |
| Deferred tax assets | 30 | 56,249 | 36,003 | 27,621 |
| Long-term prepayments | 22 | 5,259 | 9,302 | 5,179 |
| Amounts due from related parties | 40 | – | – | 10,296 |
| Total non-current assets | | 1,523,089 | 1,476,515 | 1,451,575 |
| CURRENT ASSETS | | | | |
| Inventories | 20 | 818,925 | 678,014 | 444,963 |
| Trade receivables | 21 | 71,313 | 65,294 | 38,246 |
| Amounts due from related parties | 40 | 104,422 | 104,402 | 11,621 |
| Prepayments, other receivables and other assets | 22 | 407,067 | 335,141 | 392,945 |
| Financial assets at fair value through profit or loss | 19 | 185,920 | 197,000 | 439,000 |
| Pledged deposits | 23 | 66,630 | 32,934 | 25,451 |
| Cash in transit | 24 | 10,908 | 21,550 | 6,160 |
| Cash and cash equivalents | 25 | 249,315 | 374,721 | 230,672 |
| Total current assets | | 1,914,500 | 1,809,056 | 1,589,058 |
| CURRENT LIABILITIES | | | | |
| Trade and bills payables | 26 | 91,498 | 83,654 | 145,625 |
| Amounts due to related parties | 40 | 8,466 | 13,130 | 11,059 |
| Other payables and accruals | 27 | 202,116 | 149,216 | 169,847 |
| Contract liabilities | 28 | 210,375 | 215,944 | 269,118 |
| Interest-bearing bank and other borrowings | 29 | 1,131,573 | 946,282 | 326,106 |
| Lease liabilities | 15 | 29,699 | 27,854 | 34,222 |
| Tax payable | | 65,066 | 17,701 | 44,712 |
| Total current liabilities | | 1,738,793 | 1,453,781 | 1,000,689 |
| NET CURRENT ASSETS | | 175,707 | 355,275 | 588,369 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,698,796 | 1,831,790 | 2,039,944 |
| NON-CURRENT LIABILITIES | | | | |
| Contract liabilities | 28 | 113,099 | 93,830 | 88,273 |
| Interest-bearing bank and other borrowings | 29 | 36,700 | – | – |
| Lease liabilities | 15 | 86,824 | 109,576 | 110,642 |
| Deferred tax liabilities | 30 | 149,532 | 144,320 | 146,843 |
| Total non-current liabilities | | 386,155 | 347,726 | 345,758 |
| Net assets | | 1,312,641 | 1,484,064 | 1,694,186 |
| EQUITY | | | | |
| Equity attributable to owners of the parent | | | | |
| Share capital | 31 | –* | –* | –* |
| Reserves | 32 | 1,140,862 | 1,293,254 | 1,528,017 |
| Non-controlling interests | | 1,140,862 171,779 | 1,293,254 190,810 | 1,528,017 166,169 |
| Total equity | | 1,312,641 | 1,484,064 | 1,694,186 |

* Less than RMB1,000.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2018

| Notes | Attributable to owners of the parent | | | | | Non-controlling interests RMB'000 | Total equity RMB'000 |
|--|--------------------------------------|-----------------------------|------------------------------|--|------------------|--------------------------------------|-------------------------|
| | Share capital RMB'000 | Capital reserve* RMB'000 | Retained profits* RMB'000 | Exchange fluctuation reserve* RMB'000 | Total RMB'000 | | |
| At 1 January 2018 | – | 388,341 | 654,458 | 249 | 1,043,048 | 128,547 | 1,171,595 |
| Profit for the year | – | – | 206,951 | – | 206,951 | 63,232 | 270,183 |
| Other comprehensive loss for the year: | | | | | | | |
| Exchange differences related to foreign operations | – | – | – | (1,418) | (1,418) | – | (1,418) |
| Total comprehensive income/(loss) for the year | – | – | 206,951 | (1,418) | 205,533 | 63,232 | 268,765 |
| Issue of shares | 31 | –** | – | – | –** | – | –** |
| Dividends paid to non-controlling shareholders | 33 | – | – | – | – | (20,000) | (20,000) |
| Disposal of subsidiaries | 35 | – | – | – | (107,719) | – | (107,719) |
| At 31 December 2018 | –** | 388,341 | 753,690 | (1,169) | 1,140,862 | 171,779 | 1,312,641 |

Year ended 31 December 2019

| Notes | Attributable to owners of the parent | | | | | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|--------------------------------------|-----------------------------|------------------------------|--|------------------|--------------------------------------|-------------------------|
| | Share capital RMB'000 | Capital reserve* RMB'000 | Retained profits* RMB'000 | Exchange fluctuation reserve* RMB'000 | Total RMB'000 | | |
| At 1 January 2019 | –** | 388,341 | 753,690 | (1,169) | 1,140,862 | 171,779 | 1,312,641 |
| Profit for the year | – | – | 159,857 | – | 159,857 | 65,031 | 224,888 |
| Other comprehensive income for the year: | | | | | | | |
| Exchange differences related to foreign operations | – | – | – | 135 | 135 | – | 135 |
| Total comprehensive income for the year | – | – | 159,857 | 135 | 159,992 | 65,031 | 225,023 |
| Business combinations involving entities under common control | 2.1 | – | (7,600) | – | (7,600) | – | (7,600) |
| Dividends paid to non-controlling shareholders | 33 | – | – | – | – | (46,000) | (46,000) |
| At 31 December 2019 | –** | 380,741 | 913,547 | (1,034) | 1,293,254 | 190,810 | 1,484,064 |

Year ended 31 December 2020

| | Attributable to owners of the parent | | | | | | | |
|--|--------------------------------------|---------|----------|-----------|-------------|-----------|-------------|-----------|
| | Notes | Share | Capital | Retained | Exchange | Total | Non- | Total |
| | | capital | reserve* | profits* | fluctuation | | controlling | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| At 1 January 2020 | | -** | 380,741 | 913,547 | (1,034) | 1,293,254 | 190,810 | 1,484,064 |
| Profit for the year | | - | - | 234,984 | - | 234,984 | 71,507 | 306,491 |
| Other comprehensive loss for the year: | | | | | | | | |
| Exchange differences related to foreign operations | | - | - | - | (221) | (221) | - | (221) |
| Total comprehensive income/(loss) for the year | | - | - | 234,984 | (221) | 234,763 | 71,507 | 306,270 |
| Acquisition of a subsidiary | 34 | - | - | - | - | - | 3,852 | 3,852 |
| Dividends paid to non-controlling shareholders | 33 | - | - | - | - | - | (100,000) | (100,000) |
| At 31 December 2020 | | -** | 380,741 | 1,148,531 | (1,255) | 1,528,017 | 166,169 | 1,694,186 |

* These reserve accounts comprise the consolidated reserves of RMB1,140,862,000, RMB1,293,254,000 and RMB1,528,017,000 in the consolidated statements of financial position as at 31 December 2018, 2019 and 2020, respectively.

** Less than RMB1,000.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Notes | Year ended 31 December | | |
|--|-------|------------------------|-----------------|-----------------|
| | | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit before tax | | 426,958 | 330,204 | 420,212 |
| Adjustments for: | | | | |
| Finance costs | 7 | 83,549 | 56,242 | 41,054 |
| Interest income | 5 | (15,004) | (14,365) | (11,592) |
| Depreciation of property, plant and equipment | 6 | 76,141 | 59,930 | 64,901 |
| Depreciation/amortisation of investment properties | 6 | 3,293 | – | – |
| Amortisation of intangible assets | 6 | 22,981 | 23,212 | 23,265 |
| Depreciation of right-of-use assets | 6 | 35,019 | 54,861 | 57,373 |
| Gain on disposal of property, plant and equipment | 5 | (886) | (4,176) | (8,826) |
| Gain on disposal of financial assets at fair value through profit or loss | 5 | – | – | (500) |
| Write-down of inventories to net realisable value | 6 | 12,050 | 17,133 | 7,658 |
| Gain on disposal of subsidiaries | 5 | – | – | (2,244) |
| Impairment of prepayments, other receivables and other assets | 6 | – | – | 10,240 |
| Investment income from financial assets at fair value through profit or loss | 5 | (3,132) | (4,168) | (9,936) |
| | | 640,969 | 518,873 | 591,605 |
| (Increase)/decrease in inventories | | (86,910) | 123,778 | 217,569 |
| Decrease in trade receivables | | 35,800 | 6,019 | 25,494 |
| Decrease/(increase) in cash in transit | | 11,239 | (10,642) | 14,750 |
| Decrease/(increase) in amounts due from related parties | | 141,868 | 9,347 | (7,219) |
| Decrease/(increase) in prepayments, other receivables and other assets | | 104,276 | 76,442 | (79,484) |
| Decrease in long-term prepayments | | 1,190 | – | – |
| Increase/(decrease) in trade and bills payables | | 9,596 | (14,190) | 62,564 |
| (Decrease)/increase in amounts due to related parties | | (183,324) | 4,100 | 2,662 |
| Increase/(decrease) in other payables and accruals | | 10,525 | (49,439) | (13,849) |
| Increase/(decrease) in contract liabilities | | 6,432 | (13,700) | 52,111 |
| Cash generated from operations | | 691,661 | 650,588 | 866,203 |
| Interest received | | 9,337 | 5,765 | 2,492 |
| Income taxes paid | 36(d) | (93,367) | (135,621) | (78,400) |
| Net cash flows from operating activities | | 607,631 | 520,732 | 790,295 |

| | Notes | Year ended 31 December | | |
|---|-------|------------------------|-----------------|-----------------|
| | | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from disposal of property, plant and equipment | | 73,803 | 85,225 | 77,380 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 3,634,488 | 2,055,770 | 3,792,230 |
| Purchases of financial assets at fair value through profit or loss | | (3,548,180) | (2,066,850) | (4,023,730) |
| Purchases of items of property, plant and equipment | | (107,104) | (140,584) | (129,535) |
| Additions to intangible assets | | (510) | (2,306) | – |
| Repayments of prepayments for prepaid land lease payments | | 34,000 | – | – |
| Taxes paid on investing activities | 36(d) | (10,062) | – | – |
| Disposal of subsidiaries | 35 | (26,187) | – | 59,025 |
| Proceeds from disposal of subsidiaries from previous periods | | 10,000 | 4,560 | – |
| Acquisition of a subsidiary | 34 | – | – | (40,000) |
| Advances of loans to related parties | | (35,000) | (154,500) | (142,000) |
| Repayment of loans from related parties | | 25,000 | 138,500 | 242,000 |
| Investment income from financial assets at fair value through profit or loss | | 3,132 | 4,168 | 9,936 |
| Interest received from loans to related parties | | 5,667 | 10,713 | 9,100 |
| Net cash flows from/(used in) investing activities | | 59,047 | (65,304) | (145,594) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| New bank and other borrowings | | 2,711,164 | 1,159,039 | 648,989 |
| Repayment of bank and other borrowings | | (3,342,032) | (1,381,030) | (1,270,439) |
| Decrease in pledged deposits | | 2,466 | 33,696 | 6,444 |
| Interest paid | 36(b) | (85,974) | (53,801) | (33,804) |
| Dividends paid to non-controlling shareholders | | (20,000) | (46,000) | (100,000) |
| Proceeds from sale and lease-back transactions | | 9,948 | 12,047 | 16,918 |
| Payments for business combinations involving entities under common control | 2.1 | – | (7,600) | – |
| Payment of sale and lease-back transactions | | (7,913) | (12,545) | (15,329) |
| Payment of lease liabilities | 36(c) | (9,887) | (33,779) | (39,502) |
| Payment of listing expenses | | (1,243) | (196) | (1,823) |
| Net cash flows used in financing activities | | (743,471) | (330,169) | (788,546) |

| | <i>Notes</i> | Year ended 31 December | | |
|---------------------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| | | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
| NET (DECREASE)/INCREASE IN | | | | |
| CASH AND CASH EQUIVALENTS | | (76,793) | 125,259 | (143,845) |
| Cash and cash equivalents at | | | | |
| beginning of year | | 326,107 | 249,315 | 374,721 |
| Effect of foreign exchange rate | | | | |
| changes, net | | <u>1</u> | <u>147</u> | <u>(204)</u> |
| CASH AND CASH EQUIVALENTS | | | | |
| AT END OF YEAR | | <u>249,315</u> | <u>374,721</u> | <u>230,672</u> |
| ANALYSIS OF BALANCES OF | | | | |
| CASH AND CASH EQUIVALENTS | | | | |
| Cash and cash equivalents | 25 | <u>249,315</u> | <u>374,721</u> | <u>230,672</u> |

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

| | Notes | As at 31 December | | |
|--|-------|----------------------|----------------------|----------------------|
| | | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| NON-CURRENT ASSETS | | | | |
| Investments in subsidiaries | 18 | <u>36,253</u> | <u>36,253</u> | <u>36,253</u> |
| Total non-current assets | | <u>36,253</u> | <u>36,253</u> | <u>36,253</u> |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | <u>—*</u> | <u>—*</u> | <u>—*</u> |
| Total current assets | | <u>—*</u> | <u>—*</u> | <u>—*</u> |
| CURRENT LIABILITIES | | | | |
| Due to a subsidiary | | — | — | 3 |
| Total current liabilities | | <u>—</u> | <u>—</u> | <u>3</u> |
| NET CURRENT LIABILITIES | | <u>—</u> | <u>—</u> | <u>(3)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>36,253</u> | <u>36,253</u> | <u>36,250</u> |
| NET ASSETS | | <u><u>36,253</u></u> | <u><u>36,253</u></u> | <u><u>36,250</u></u> |
| EQUITY | | | | |
| Share capital | 31 | <u>—*</u> | <u>—*</u> | <u>—*</u> |
| Reserves | | <u>36,253</u> | <u>36,253</u> | <u>36,250</u> |
| Total equity | | <u><u>36,253</u></u> | <u><u>36,253</u></u> | <u><u>36,250</u></u> |

* Less than RMB1,000.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 May 2018. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the sale and service of motor vehicles in the People's Republic of China (the "PRC").

The Company and its subsidiaries now comprising the Group underwent the Corporate Reorganisation as set out in the paragraph headed "Corporate Reorganisation" in the section headed "History and Reorganisation" in the Prospectus. Apart from the Corporate Reorganisation, the Company has not commenced any business or operation since its incorporation.

In the opinion of the directors, the holding company of the Company is Chou Dynasty Holding Co., Ltd and Mr. Chou Patrick Hsiao-Po is the controlling shareholder of the Company.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

| Name | Place and date of incorporation/ registration and place of operations | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|----------|--|
| | | | Direct | Indirect | |
| BetterLife Tianjin Management Group Co., Ltd. 百得利(天津)企業管理集團有限公司* (i)/(iv) | PRC/Mainland China 30 August 2007 | RMB303,320,000 | – | 100% | Investment holding, sale and service of motor vehicles |
| Beijing BetterLife Automobile Import and Export Group Co., Ltd. 北京百得利汽車進出口集團有限公司* (i)/(iv) | PRC/Mainland China 3 September 1998 | RMB60,000,000 | – | 100% | Sale and service of motor vehicles |
| Tianjin Liya Advertisement Co., Ltd. 天津莉雅廣告有限公司* (i)/(iv) | PRC/Mainland China 12 July 2012 | RMB1,000,000 | – | 100% | Advertisement service |
| Tianjin BetterLife Auto Service Co., Ltd. 天津百得利汽車服務有限公司* (i)/(iv) | PRC/Mainland China 26 May 2006 | RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| Beijing BetterLife Star Used Auto Brokerage Co., Ltd. 北京百得利之星舊機動車經紀有限公司* (i)/(iv) | PRC/Mainland China 24 November 2004 | RMB100,000 | – | 100% | Used motor brokerage service |
| Beijing BetterLife Auto Trade Co., Ltd. 北京百得利汽車貿易有限公司* (i)/(iv) | PRC/Mainland China 6 February 2004 | RMB20,000,000 | – | 100% | Sale and service of motor vehicles |
| Beijing BetterLife Auto Sales Co., Ltd. 北京百得利汽車銷售有限公司* (i)/(iv) | PRC/Mainland China 14 April 2008 | RMB20,000,000 | – | 100% | Sale and service of motor vehicles |
| Beijing BetterLife Star Auto Sales Co., Ltd. 北京百得利之星汽車銷售有限公司* (i)/(iv) | PRC/Mainland China 9 January 2008 | RMB40,000,000 | – | 100% | Sale and service of motor vehicles |

| Name | Place and date of incorporation/ registration and place of operations | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|--|----------|------------------------------------|
| | | | Direct | Indirect | |
| BetterLife International Motor Co., Limited (ii)/(vii) | Hong Kong 15 July 2010 | Hong Kong dollars (“HK\$”) 10,000 | 100% | – | Investment holding |
| Beijing BetterLife International Trade Co., Ltd. 北京百得利國際商貿有限公司* (i)/(iv) | PRC/Mainland China 9 December 2011 | RMB80,000,000 | – | 100% | Sale and service of motor vehicles |
| Qingdao BetterLife Auto Sales and Services Co., Ltd. 青島百得利汽車銷售服務有限公司* (i)/(iv) | PRC/Mainland China 14 December 2011 | RMB93,835,047 | – | 100% | Sale and service of motor vehicles |
| Hangzhou BetterLife Auto Co., Ltd. 杭州百得利汽車有限公司* (i)/(iv) | PRC/Mainland China 18 August 2010 | RMB30,000,000 | – | 100% | Sale and service of motor vehicles |
| Weifang BetterLife Trade Co., Ltd. 濰坊百得利貿易有限公司* (i)/(iv) | PRC/Mainland China 2 November 2011 | RMB103,000,000 | – | 100% | Investment holding |
| Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd. 成都百川金保汽車銷售服務有限公司* (i)/(iv)/(viii) | PRC/Mainland China 8 January 2014 | RMB33,333,333 | – | 30% | Sale and service of motor vehicles |
| Chengdu Baichuanxinbao Auto Sales and Services Co., Ltd. 成都百川新保汽車銷售服務有限公司* (i)/(iv) | PRC/Mainland China 30 March 2012 | RMB33,333,333 | – | 70% | Sale and service of motor vehicles |
| Beijing BetterLife Star Technology Co., Ltd. 北京百得利之星科技有限公司* (v) | PRC/Mainland China 3 September 2018 | RMB30,000,000 | – | 100% | Dormant |
| Beijing BetterLife Experimental Technology Development Co., Ltd. 北京百得利體驗科技發展有限公司* (i)/(iv) | PRC/Mainland China 16 August 2018 | RMB20,000,000 | – | 100% | Sale and service of motor vehicles |
| Qingdao BetterLife Auto Trade Co., Ltd. 青島百得利汽車貿易有限公司* (iii)/(vi) | PRC/Mainland China 17 October 2019 | RMB10,000,000 | – | 100% | Dormant |
| Yiwei (Beijing) Cultural Technology Co., Ltd. 一葦(北京)文化科技有限公司* (i)/(iv) | PRC/Mainland China 21 December 2016 | RMB13,717,610 | – | 100% | Sale of automobile accessories |
| Qingdao BetterLife Auto Co., Ltd. 青島百得利汽車有限公司* (iii)/(iv) | PRC/Mainland China 9 December 2019 | RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| Foshan Baide Laifu Auto Sales and Services Co., Ltd. 佛山栢得來富汽車銷售服務有限公司* (iv) | PRC/Mainland China 11 September 2020 | RMB15,000,000 | – | 90% | Sale and service of motor vehicles |

- * The English names of the companies registered in Mainland China represent the best efforts made by management of the Company to translate the Chinese names of the companies as they do not have official English names.

Notes:

- (i) The statutory financial statements of these entities for the years ended 31 December 2018 and 2019 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by Beijing Jiaxindasheng Certified Public Accountants Limited Company (北京嘉信達盛會計師事務所有限公司), certified public accountants registered in the PRC.
- (ii) The statutory financial statements of this entity for the years ended 31 December 2018 and 2019 prepared under Hong Kong Financial Reporting Standards (“HKFRSs”) were audited by Grant Thornton Hong Kong Limited, certified public accountants registered in Hong Kong.
- (iii) The statutory financial statements of these entities for the year ended 31 December 2019 prepared under PRC GAAP were audited by Beijing Jiaxindasheng Certified Public Accountants Limited Company (北京嘉信達盛會計師事務所有限公司), certified public accountants registered in the PRC.
- (iv) The statutory financial statements of these entities for the year ended 31 December 2020 prepared under PRC GAAP were audited by Beijing Shoulv Certified Public Accountants General Partnership (北京首律會計師事務所(普通合夥)), certified public accountants registered in the PRC.
- (v) No audited financial statements have been prepared and issued for this entity for the years ended 31 December 2018, 2019 and 2020 as this company has not started its business.
- (vi) No audited financial statements have been prepared and issued for this entity for the year ended 31 December 2020 as this company plans to cease its operation.
- (vii) As at the date of this report, no audited financial statements have been prepared and issued for this entity for the year ended 31 December 2020.
- (viii) The Group considers that it controls Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd. even though it only holds 30% of the equity shares. This is because the Group owns 51% voting rights at shareholders’ meetings.

2.1 BASIS OF PRESENTATION

Pursuant to the Corporate Reorganisation, as more fully explained in the paragraph headed “Corporate Reorganisation” in the section headed “History and Reorganisation” in the Prospectus, the Company became the holding company of the companies now comprising the Group. As the Corporate Reorganisation only involved inserting a new holding company at the top of an existing company, the Historical Financial Information for the Relevant Periods has been presented as a continuation of the existing company by applying the principles of merger accounting.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholder’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Corporate Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the controlling shareholder, and changes therein, prior to the Corporate Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

In November 2018, the Group transferred 1% of its equity interest in Beijing Zhoushi Xingye Enterprise Management Co., Ltd. (“Beijing Zhoushi”), a subsidiary of the Group, to Chou International Investment Co., Limited (“Chou International Investment”) for a cash consideration of RMB4,560,000. Chou International Investment is ultimately controlled by Mr. Chou Patrick Hsiao-Po. In December 2018, the Group additionally transferred 76.7% and 22.3% of its equity interests in Beijing Zhoushi to Chou International Investment and Tianjin Happy International Trading Co., Ltd. for a consideration of RMB289,000,000 and RMB84,000,000, respectively. In December 2018, the Group transferred 100% of equity interests in Tianjin Chou International Trading Co., Ltd. (“Tianjin Guomao”) to Chou International Investment for nil consideration. From then, Beijing Zhoushi and Tianjin Guomao are disposed out of the Group. Details are given in note 35.

In April 2019, the Group entered into an equity transfer agreement with a related party named BetterLife (China) Investment Co., Ltd. (“BetterLife (China) Investment”), a wholly-owned subsidiary of Mr. Chou Patrick Hsiao-Po, to acquire 100% of equity interests in Yiwei (Beijing) Cultural Technology Co., Ltd. (“Yiwei Cultural”) at a cash consideration of RMB7,600,000. The consideration was settled by the Company in May 2019. The Group obtained the control over Yiwei Cultural in May 2019.

Given that Yiwei Cultural was under common control of Mr. Chou Patrick Hsiao-Po before and after the business combination, and that control is not temporary, the acquisition of Yiwei Cultural is considered as business combination involving entities under common control. Accordingly, the Group applied the principles of merger accounting to account for the acquisition of Yiwei Cultural in preparing the Historical Financial Information of the Group.

In October 2020, the Group entered into an agreement with two independent third parties to acquire a 90% interest in Foshan Baide Laifu Auto Sales and Services Co., Ltd. (“Foshan Baide Lauifu”) at a cash consideration of RMB45,346,000. The transaction was completed on 14 December 2020. Details are given in note 34.

In October 2020, the Group entered into an agreement with an independent third party to dispose of its 100% interest in Tianjin Laifutai Insurance Agency Co., Ltd. at a cash consideration of RMB50,000,000. The transaction was completed on 9 November 2020. Details are given in note 35.

In December 2020, the Group entered into an agreement with three independent third parties to dispose of its 100% interest in Qingdao BetterLife Auto Sales Co., Ltd. at a cash consideration of approximately RMB17,340,000. The transaction was completed on 14 December 2020. Details are given in note 35.

In December 2020, the Group entered into an agreement with three independent third parties to dispose of its 100% interest in Weifang BetterLife Auto Sales and Services Co., Ltd. at a cash considerations of approximately RMB3,732,000. The transaction was completed on 17 December 2020. Details are given in note 35.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”), which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2020, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*, and Amendment to IFRS 16 *Covid-19-Related Rent Concessions*, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for certain financial assets at fair value through profit or loss which have been measured at fair value.

Basis of consolidation

The Historical Financial Information includes the financial information of the Group for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial information of the subsidiaries is prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Historical Financial Information. The Group intends to adopt them, if applicable, when they become effective.

| | |
|--|---|
| IFRS 17 | <i>Insurance Contracts</i> ³ |
| Amendments to IAS 1 | <i>Classification of Liabilities as Current or Non-current</i> ³ |
| Amendments to IFRS 3 | <i>Reference to the Conceptual Framework</i> ² |
| Amendments to IAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use</i> ² |
| Amendments to IAS 37 | <i>Onerous Contracts – Costs of Fulfilling a Contract</i> ² |
| <i>Annual Improvements to IFRS Standards 2018-2020 Cycle</i> | Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 ² |
| Amendments to IFRS 4 | <i>Extension of the Temporary Exemption from Applying IFRS 9</i> ³ |
| Amendments to IFRS 17 | <i>Insurance Contracts</i> ^{3, 5} |
| Amendments to IAS 28 and IFRS 10 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴ |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | <i>Interest Rate Benchmark Reform – Phase 2</i> ¹ |
| Amendments to IAS 1 | <i>Disclosure of Accounting Policies</i> ³ |
| Amendments to IAS 8 | <i>Definition of Accounting Estimates</i> ³ |

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

- ⁵ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that the adoption of them will not have material impact on the Group's financial position and financial performance.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at fair value at the end of each of the Relevant Periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

| Categories | Estimated useful lives |
|------------------------|---|
| Buildings | 20 years |
| Machinery equipment | 10 years |
| Leasehold improvements | Over the shorter of the lease terms and 5 years |
| Vehicles | 5 years |
| Other equipment | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at historical cost less accumulated depreciation/amortisation and accumulated impairment losses, if any.

Depreciation/amortisation is calculated using the straight-line method to write off the cost less accumulated impairment loss of the asset over its estimated useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each of the Relevant Periods.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

| Categories | Estimated useful lives |
|-------------------|-------------------------------|
| Software | 10 years |
| Dealership | 30 years |

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| Categories | Estimated useful lives |
|------------------------------|-------------------------------|
| Prepaid land lease payments | 35 – 45 years |
| Leasehold land and buildings | 3 – 20 years |
| Other equipment | 3.5 years |

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of other equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income of such leases is recognised in the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Sale and leaseback transactions (as a seller-lessee)

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognise the assets and accounts for the transfer proceeds as financial liabilities within the scope of IFRS 9.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties, lease liabilities and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Other than spare parts and accessories, cost is calculated on specific identification basis as appropriate and comprises all cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost of spare parts and accessories is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods in which the costs, for which it is intended to compensate, are expensed.

Revenue recognition***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of motor vehicles, spare parts, accessories and other automobile-related products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Rendering of services

For the rendering of services, the control is transferred overtime and therefore, the performance obligation is satisfied and revenue is recognised over time, if one of the following criteria is met:

- (i) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (ii) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (iii) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Commission income is recognised at a point in time when the services are fully rendered and accepted by customers.

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis based on the expected entitlement earned up to the end of each of the Relevant Periods for each relevant supplier contract.

Rebates relating to items purchased but still held at the end of each of the Relevant Periods are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

Employee benefits***Social pension plans***

The Group has social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic and supplementary medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to the statement of profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed dividends are disclosed in the notes to the Historical Financial Information.

Foreign currencies

The Historical Financial Information is presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and one overseas subsidiary are currencies other than RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each of the Relevant Periods and their statements of profit or loss are translated into RMB at the weighted average exchange rates for each of the Relevant Periods.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for each of the Relevant Periods.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Revenue from contracts with customers

The Group applied the following judgement that significantly affects the determination of the amount and timing of revenue from contracts with customers:

Identifying performance obligations in a bundled sale of motor vehicles and after-sales services

The Group provides after-sales services that are either sold separately or bundled together with the sale of motor vehicles to a customer. The after-sales services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer.

The Group determined that both motor vehicles and after-sales services are each capable of being distinct. The fact that the Group regularly sells both motor vehicles and after-sales services on a standalone basis indicates that the customer can benefit from both products on their own. The Group also determined that the promises to transfer the motor vehicles and to provide after-sales services are distinct within the context of the contract. The motor

vehicles and after-sales services are not inputs to a combined item in the contract. The Group is not providing a significant integration service because the presence of the motor vehicles and after-sales services together in the contract does not result in any additional or combined functionality and neither the vehicle nor the service modifies or customises the other. In addition, the motor vehicles and after-sales services are not highly interdependent or highly interrelated, because the Group would be able to transfer the motor vehicles even if the customer declined after-sales services and would be able to provide after-sales services in relation to products sold by other distributors. Consequently, the Group has allocated a portion of the transaction price to the motor vehicles and after-sales services based on relative standalone selling prices.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2018, 2019 and 2020 was RMB199,715,000, RMB199,715,000 and RMB210,396,000, respectively. Further details are given in note 16 to the Historical Financial Information.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including right-of-use assets) at the end of each of the Relevant Periods. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 30 to the Historical Financial Information.

Provision for inventories

The Group reviews the carrying amounts of the inventories at the end of each of the Relevant Periods to determine whether the inventories are carried at the lower of cost and net realisable value. The net realisable value is estimated based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories written down or the related reversals of write-down and affect the Group's financial position.

Accruals of vendor rebates

The Group reviews the accruals of vendor rebates at the end of each of the Relevant Periods by reference to the rebate receivables in accordance with the applicable terms and conditions of the suppliers' agreements. The accruals of vendor rebates involve management estimation and the extent of rebate entitlement under the respective categories of vendor rebates. Specific factors that management consider include the recent historical sales volume patterns, the rebate rates applied and any other available information concerning the creditworthiness of suppliers.

Useful lives of intangible assets

The intangible assets are amortised on the straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market conditions. Management will increase the amortisation charges when useful lives become shorter than previously estimated.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's 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. Management will increase the depreciation charge where useful lives are less than the previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

Since over 95% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 95% of the Group's non-current assets were located in Mainland China, no geographical information in accordance with IFRS 8 *Operating Segments* is presented.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the Relevant Periods, no major customer information in accordance with IFRS 8 *Operating Segments* is presented.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

Revenue from contracts with customers*(a) Disaggregated revenue information*

| | Year ended 31 December | | |
|---|------------------------|------------------|------------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Types of goods or services | | | |
| Sale of motor vehicles | 7,346,750 | 7,069,342 | 7,462,455 |
| After-sales services (<i>note</i>) | 1,062,428 | 1,109,439 | 1,070,675 |
| Total revenue from contracts with customers | <u>8,409,178</u> | <u>8,178,781</u> | <u>8,533,130</u> |
| Geographical market | | | |
| Mainland China | <u>8,409,178</u> | <u>8,178,781</u> | <u>8,533,130</u> |
| Timing of revenue recognition | | | |
| Goods transferred at a point in time | 7,539,167 | 7,261,043 | 7,690,052 |
| Services transferred at a point in time | 870,011 | 917,738 | 843,078 |
| Total revenue from contracts with customers | <u>8,409,178</u> | <u>8,178,781</u> | <u>8,533,130</u> |

Note: After-sales services include repair and maintenance services, sale of accessories and other automobile-related products, insurance agency services and license plate registration services.

The following table shows the amounts of revenue recognised the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | Year ended 31 December | | |
|---|------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | | |
| Sale of motor vehicles | 142,409 | 156,264 | 158,497 |
| After-sales services | 85,294 | 94,147 | 77,279 |
| | <u>227,703</u> | <u>250,411</u> | <u>235,776</u> |

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment in advance is normally required.

Other income and gains

| | Year ended 31 December | | |
|--|-------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| <u>Other income</u> | | | |
| Interest income | 15,004 | 14,365 | 11,592 |
| Commission income | 77,171 | 89,162 | 102,171 |
| Rental income | 9,562 | 9,458 | 7,196 |
| Compensation income (<i>note</i>) | 115,363 | 29 | 165 |
| Government grants | 553 | 2,012 | 4,942 |
| Others | 11,225 | 16,901 | 20,909 |
| | <u>228,878</u> | <u>131,927</u> | <u>146,975</u> |
| <u>Gains</u> | | | |
| Gain on disposal of property, plant and equipment | 886 | 4,176 | 8,826 |
| Gain on disposal of financial assets at fair value through profit or loss | – | – | 500 |
| Investment income from financial assets at fair value through profit or loss | 3,132 | 4,168 | 9,936 |
| Gain on disposal of subsidiaries | – | – | 2,244 |
| | <u>4,018</u> | <u>8,344</u> | <u>21,506</u> |
| | <u>232,896</u> | <u>140,271</u> | <u>168,481</u> |

Note:

The Group received a one-off compensation income of approximately RMB114,895,000 from a lawsuit relating to the land use rights of certain properties in Beijing.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | Year ended 31 December | | |
|--|-------|------------------------|------------------|------------------|
| | | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Cost of sales of motor vehicles | | 7,033,802 | 6,806,704 | 7,082,878 |
| Cost of after-sales services | | 550,180 | 589,879 | 586,639 |
| Cost of sales | | <u>7,583,982</u> | <u>7,396,583</u> | <u>7,669,517</u> |
| Depreciation of property, plant and equipment | 13 | 76,141 | 59,930 | 64,901 |
| Depreciation/amortisation of investment properties | 14 | 3,293 | – | – |
| Depreciation of right-of-use assets | 15 | 35,019 | 54,861 | 57,373 |
| Amortisation of intangible assets | 17 | 22,981 | 23,212 | 23,265 |
| Lease payments not included in the measurement of lease liabilities | | 2,307 | 2,108 | 3,083 |
| Listing expenses (including reporting accountants' remuneration) | | 3,750 | 589 | 22,558 |
| Employee benefit expense (including directors' and chief executive's remuneration (note 8)**): | | | | |
| Wages and salaries | | 183,954 | 196,907 | 206,424 |
| Pension scheme contributions | | 12,385 | 12,247 | 1,428 |
| | | <u>196,339</u> | <u>209,154</u> | <u>207,852</u> |
| Write-down of inventories to net realisable value* | 20 | 12,050 | 17,133 | 7,658 |
| Impairment of prepayments, other receivables and other assets* | | – | – | 10,240 |
| Interest income | 5 | (15,004) | (14,365) | (11,592) |
| Investment income from financial assets at fair value through profit or loss | 5 | (3,132) | (4,168) | (9,936) |
| Gain on disposal of financial assets at fair value through profit or loss | 5 | – | – | (500) |
| Gain on disposal of subsidiaries | 5 | – | – | (2,244) |
| Gain on disposal of property, plant and equipment | 5 | (886) | (4,176) | (8,826) |

* The write-down of inventories to net realisable value and impairment of prepayments, other receivables and other assets are included in "Other expenses" in the consolidated statements of profit or loss.

** Employee benefit expense of approximately RMB44,570,000, RMB46,341,000 and RMB36,347,000 is included in cost of sales in the consolidated statement of profit or loss for the years ended 31 December 2018, 2019 and 2020, respectively.

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Year ended 31 December | | |
|---|------------------------|------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
| Interest on bank and other borrowings | 80,260 | 49,405 | 32,204 |
| Interest on lease liabilities | 2,776 | 5,775 | 7,774 |
| Interest on sale and lease-back liabilities | 513 | 1,062 | 1,076 |
| | <u>83,549</u> | <u>56,242</u> | <u>41,054</u> |

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors prior to 18 May 2018, the date of incorporation of the Company.

Mr. Chou Patrick Hsiao-Po was appointed as an executive director of the Company on 18 May 2018.

Ms. Sun Jing, Ms. Wei Hongjing and Mr. Chau Kwok Keung were appointed as executive directors of the Company on 28 December 2020. Mr. Chou Patrick Hsiao-Po was appointed as the chairman of the board, the chief executive and re-designated as an executive director on the same date.

Certain directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors or officers of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

| | Year ended 31 December | | |
|---|------------------------|------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
| Fees | – | – | – |
| Other emoluments: | | | |
| Salaries, allowances and benefits in kind | 2,923 | 3,197 | 4,293 |
| Pension scheme contributions | 99 | 100 | 13 |
| | <u>3,022</u> | <u>3,297</u> | <u>4,306</u> |

(a) Independent non-executive directors

Mr. Liu Dengqing, Mr. Wong Ka Kit and Mr. Yau Ka Chi were appointed as independent non-executive directors of the Company on 28 December 2020. There were no emoluments payable to the independent non-executive directors during the Relevant Periods.

(b) Executive directors and the chief executive

| | Salaries, allowances and benefits in kind <i>RMB'000</i> | Pension scheme contributions <i>RMB'000</i> | Total remuneration <i>RMB'000</i> |
|---|--|--|---|
| Year ended 31 December 2018 | | | |
| Executive directors: | | | |
| Mr. Chou Patrick Hsiao-Po (chief executive) | 960 | – | 960 |
| Ms. Sun Jing | 834 | 52 | 886 |
| Ms. Wei Hongjing | 1,129 | 47 | 1,176 |
| Mr. Chau Kwok Keung (<i>note</i>) | – | – | – |
| | 2,923 | 99 | 3,022 |
| | 2,923 | 99 | 3,022 |
| Year ended 31 December 2019 | | | |
| Executive directors: | | | |
| Mr. Chou Patrick Hsiao-Po (chief executive) | 960 | – | 960 |
| Ms. Sun Jing | 704 | 50 | 754 |
| Ms. Wei Hongjing | 1,533 | 50 | 1,583 |
| Mr. Chau Kwok Keung (<i>note</i>) | – | – | – |
| | 3,197 | 100 | 3,297 |
| | 3,197 | 100 | 3,297 |
| Year ended 31 December 2020 | | | |
| Executive directors: | | | |
| Mr. Chou Patrick Hsiao-Po (chief executive) | 960 | – | 960 |
| Ms. Sun Jing | 1,043 | 4 | 1,047 |
| Ms. Wei Hongjing | 1,617 | 4 | 1,621 |
| Mr. Chau Kwok Keung (<i>note</i>) | 673 | 5 | 678 |
| | 4,293 | 13 | 4,306 |
| | 4,293 | 13 | 4,306 |

Note: Mr. Chau Kwok Keung joined the Company in September 2020.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2018 included three directors, and during the year ended 31 December 2019 included two directors and during the year ended 31 December 2020 included three directors. Details of whose remuneration are set out in note 8 above. Details of the remuneration for the Relevant Periods of the five highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | Year ended 31 December | | |
|---|------------------------|------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
| Salaries, allowances and benefits in kind | 1,607 | 2,217 | 2,553 |
| Pension scheme contributions | 52 | 100 | 8 |
| | 1,659 | 2,317 | 2,561 |
| | 1,659 | 2,317 | 2,561 |

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

| | Year ended 31 December | | |
|--------------------------------|------------------------|----------|----------|
| | 2018 | 2019 | 2020 |
| Nil to HK\$1,000,000 | 1 | 1 | – |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 2 | – |
| HK\$1,500,001 to HK\$2,000,000 | – | – | 2 |
| | <u>2</u> | <u>3</u> | <u>2</u> |

10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and accordingly is not subject to income tax.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

All of the Group's subsidiaries established in the PRC were subject to the PRC corporate income tax rate of 25% during the Relevant Periods.

Corporate income tax of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the Relevant Periods. The major components of income tax expense of the Group are as follows:

| | Year ended 31 December | | |
|-------------------------------|------------------------|------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
| Current – Mainland China | | | |
| Charge for the year | 143,253 | 90,282 | 110,656 |
| Deferred (<i>note 30</i>) | <u>13,522</u> | <u>15,034</u> | <u>3,065</u> |
| Total tax charge for the year | <u>156,775</u> | <u>105,316</u> | <u>113,721</u> |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

| | Year ended 31 December | | |
|---|------------------------|------------------------|------------------------|
| | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
| Profit before tax | <u>426,958</u> | <u>330,204</u> | <u>420,212</u> |
| Tax at the statutory tax rate of 25% | 106,740 | 82,551 | 105,053 |
| Expenses not deductible for tax | 2,169 | 3,102 | 6,460 |
| Tax effect in relation to the Corporate Reorganisation | 30,562 | – | – |
| Tax losses not recognised | 15,981 | 23,972 | 9,435 |
| Tax losses utilised from previous periods | – | (4,225) | (7,078) |
| Deductible temporary differences not recognised | 1,646 | 1,629 | 1,418 |
| Deductible temporary differences utilised from previous periods | <u>(323)</u> | <u>(1,713)</u> | <u>(1,567)</u> |
| Tax charge at the Group's effective tax rate | <u>156,775</u> | <u>105,316</u> | <u>113,721</u> |

11. DIVIDENDS

During the Relevant Periods, no dividends have been paid or declared by the Company since its incorporation.

During the years ended 31 December 2018, 2019 and 2020, subsidiaries of the Group declared and paid dividends of RMB20,000,000, RMB46,000,000 and RMB100,000,000, respectively, in cash to non-controlling interests. Details are given in note 33.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Corporate Reorganisation and the basis of presentation of the results of the Group for the Relevant Periods.

13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings <i>RMB'000</i> | Machinery equipment <i>RMB'000</i> | Leasehold improvements <i>RMB'000</i> | Vehicles <i>RMB'000</i> | Other equipment <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|-----------------------------|--|---|----------------------------|--------------------------------------|-------------------------|
| 31 December 2018 | | | | | | |
| At 1 January 2018: | | | | | | |
| Cost | 437,442 | 49,521 | 57,999 | 107,687 | 42,281 | 694,930 |
| Accumulated depreciation | (57,528) | (12,967) | (30,307) | (20,628) | (16,099) | (137,529) |
| Net carrying amount | <u>379,914</u> | <u>36,554</u> | <u>27,692</u> | <u>87,059</u> | <u>26,182</u> | <u>557,401</u> |
| At 1 January 2018, net of accumulated depreciation | | | | | | |
| | 379,914 | 36,554 | 27,692 | 87,059 | 26,182 | 557,401 |
| Additions | – | 2,170 | 1,464 | 97,388 | 3,380 | 104,402 |
| Disposals | – | (306) | – | (72,001) | (610) | (72,917) |
| Disposal of subsidiaries (<i>note 35</i>) | (158,585) | (16) | – | (109) | (590) | (159,300) |
| Depreciation provided during the year | (28,816) | (6,527) | (14,176) | (18,595) | (8,027) | (76,141) |
| Transfer to investment properties (<i>note 14</i>) | (1,779) | – | – | – | – | (1,779) |
| At 31 December 2018, net of accumulated depreciation | <u>190,734</u> | <u>31,875</u> | <u>14,980</u> | <u>93,742</u> | <u>20,335</u> | <u>351,666</u> |
| At 31 December 2018: | | | | | | |
| Cost | 243,139 | 51,049 | 59,463 | 114,857 | 43,699 | 512,207 |
| Accumulated depreciation | (52,405) | (19,174) | (44,483) | (21,115) | (23,364) | (160,541) |
| Net carrying amount | <u>190,734</u> | <u>31,875</u> | <u>14,980</u> | <u>93,742</u> | <u>20,335</u> | <u>351,666</u> |

| | Buildings RMB'000 | Machinery equipment RMB'000 | Leasehold improvements RMB'000 | Vehicles RMB'000 | Other equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|----------------------|-----------------------------------|--------------------------------------|---------------------|-------------------------------|--|------------------|
| 31 December 2019 | | | | | | | |
| At 31 December 2018 and at 1 January 2019: | | | | | | | |
| Cost | 243,139 | 51,049 | 59,463 | 114,857 | 43,699 | – | 512,207 |
| Accumulated depreciation | (52,405) | (19,174) | (44,483) | (21,115) | (23,364) | – | (160,541) |
| Net carrying amount | <u>190,734</u> | <u>31,875</u> | <u>14,980</u> | <u>93,742</u> | <u>20,335</u> | <u>–</u> | <u>351,666</u> |
| At 1 January 2019, net of accumulated depreciation | | | | | | | |
| Additions | – | 7,363 | 17,013 | 106,805 | 6,248 | 192 | 137,621 |
| Disposals | – | (283) | – | (80,398) | (368) | – | (81,049) |
| Depreciation provided during the year | (17,473) | (6,191) | (8,363) | (20,777) | (7,126) | – | (59,930) |
| At 31 December 2019, net of accumulated depreciation | <u>173,261</u> | <u>32,764</u> | <u>23,630</u> | <u>99,372</u> | <u>19,089</u> | <u>192</u> | <u>348,308</u> |
| At 31 December 2019: | | | | | | | |
| Cost | 243,139 | 57,333 | 76,476 | 123,818 | 48,528 | 192 | 549,486 |
| Accumulated depreciation | (69,878) | (24,569) | (52,846) | (24,446) | (29,439) | – | (201,178) |
| Net carrying amount | <u>173,261</u> | <u>32,764</u> | <u>23,630</u> | <u>99,372</u> | <u>19,089</u> | <u>192</u> | <u>348,308</u> |
| | Buildings RMB'000 | Machinery equipment RMB'000 | Leasehold improvements RMB'000 | Vehicles RMB'000 | Other equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
| 31 December 2020 | | | | | | | |
| At 31 December 2019 and at 1 January 2020: | | | | | | | |
| Cost | 243,139 | 57,333 | 76,476 | 123,818 | 48,528 | 192 | 549,486 |
| Accumulated depreciation | (69,878) | (24,569) | (52,846) | (24,446) | (29,439) | – | (201,178) |
| Net carrying amount | <u>173,261</u> | <u>32,764</u> | <u>23,630</u> | <u>99,372</u> | <u>19,089</u> | <u>192</u> | <u>348,308</u> |
| At 1 January 2020, net of accumulated depreciation | | | | | | | |
| Additions | 164 | 7,885 | 5,610 | 81,582 | 10,519 | 11,743 | 117,503 |
| Transfers | – | 1,270 | 1,471 | – | – | (2,741) | – |
| Acquisition of a subsidiary (note 34) | – | 835 | – | 7,148 | 138 | – | 8,121 |
| Disposals | – | (635) | – | (67,756) | (163) | – | (68,554) |
| Disposal of subsidiaries (note 35) | – | (1,723) | (35) | (3,478) | (226) | – | (5,462) |
| Depreciation provided during the year | (18,778) | (6,378) | (7,750) | (24,546) | (7,449) | – | (64,901) |
| At 31 December 2020, net of accumulated depreciation | <u>154,647</u> | <u>34,018</u> | <u>22,926</u> | <u>92,322</u> | <u>21,908</u> | <u>9,194</u> | <u>335,015</u> |
| At 31 December 2020: | | | | | | | |
| Cost | 243,303 | 58,383 | 29,674 | 119,307 | 54,536 | 9,194 | 514,397 |
| Accumulated depreciation | (88,656) | (24,365) | (6,748) | (26,985) | (32,628) | – | (179,382) |
| Net carrying amount | <u>154,647</u> | <u>34,018</u> | <u>22,926</u> | <u>92,322</u> | <u>21,908</u> | <u>9,194</u> | <u>335,015</u> |

Notes:

- (a) The net carrying amounts of the Group's vehicles held under sale and lease-back transactions included in the total amounts of property, plant and equipment were RMB11,726,000, RMB12,684,000 and RMB18,165,000 as at 31 December 2018, 2019 and 2020, respectively.
- (b) Certain of the Group's buildings with a net carrying amount of approximately RMB96,098,000, RMB27,929,000 and RMB21,703,000 were pledged to secure general banking facilities granted to the Group as at 31 December 2018, 2019 and 2020, respectively. Details are given in note 29.
- (c) The Group was in the process of applying for the title certificates of certain of its buildings with an aggregate net carrying amount of approximately RMB60,285,000, RMB56,601,000 and RMB21,168,000 as at 31 December 2018, 2019 and 2020, respectively. As at the date of this report, the certificates of the above buildings have been obtained by the Group. The directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter would not have any significant impact on the Group's financial position as at 31 December 2018, 2019 and 2020, respectively.

14. INVESTMENT PROPERTIES

| | Buildings <i>RMB'000</i> | Land <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|------------------------------------|-------------------------------|--------------------------------|
| 31 December 2018 | | | |
| Cost at 1 January 2018, net of accumulated depreciation/amortisation | 24,394 | 15,748 | 40,142 |
| Transfer from property, plant and equipment/right-of-use assets (<i>notes 13 and 15</i>) | 1,779 | 8,524 | 10,303 |
| Depreciation/amortisation provided during the year | (2,476) | (817) | (3,293) |
| Disposal of subsidiaries (<i>note 35</i>) | (23,697) | (23,455) | (47,152) |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2018 | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2018, 2019 and 2020: | | | |
| Cost | – | – | – |
| Accumulated depreciation/amortisation | <u> </u> | <u> </u> | <u> </u> |
| Net carrying amount | <u> </u> | <u> </u> | <u> </u> |

The investment properties are leased to third parties and related parties under operating leases, further summary details of which are included in note 15 to the Historical Financial Information.

15. LEASES**The Group as a lessee**

The Group has lease contracts for various items of land, buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 35 to 45 years, and no ongoing payments will be made under the terms of these land leases. Leases of land and buildings generally have lease terms between 3 and 20 years. Lump sum payments were made upfront to acquire other equipment from the owners with lease periods of 3.5 years, and no ongoing payments will be made under the terms of these leases.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the Relevant Periods are as follows:

| | Prepaid land lease payments <i>RMB'000</i> | Leasehold land and buildings <i>RMB'000</i> | Other equipment <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|---|--|--------------------------------|
| 31 December 2018 | | | | |
| At 1 January 2018 | 294,448 | 206,508 | 1,059 | 502,015 |
| Additions | – | 86,906 | – | 86,906 |
| Transfer to investment properties (<i>note 14</i>) | (8,524) | – | – | (8,524) |
| Disposal of subsidiaries (<i>note 35</i>) | (207,112) | – | – | (207,112) |
| Depreciation charge | (6,970) | (27,731) | (318) | (35,019) |
| | <u>71,842</u> | <u>265,683</u> | <u>741</u> | <u>338,266</u> |
| At 31 December 2018 | <u>71,842</u> | <u>265,683</u> | <u>741</u> | <u>338,266</u> |
| 31 December 2019 | | | | |
| At 1 January 2019 | 71,842 | 265,683 | 741 | 338,266 |
| Additions | – | 51,502 | – | 51,502 |
| Early termination and modification of lease contracts | – | (2,748) | – | (2,748) |
| Depreciation charge | (2,301) | (52,243) | (317) | (54,861) |
| | <u>69,541</u> | <u>262,194</u> | <u>424</u> | <u>332,159</u> |
| At 31 December 2019 | <u>69,541</u> | <u>262,194</u> | <u>424</u> | <u>332,159</u> |
| 31 December 2020 | | | | |
| At 1 January 2020 | 69,541 | 262,194 | 424 | 332,159 |
| Additions | – | 28,042 | – | 28,042 |
| Acquisition of a subsidiary (<i>note 34</i>) | – | 25,965 | – | 25,965 |
| Early termination and modification of lease contracts | – | (14,845) | – | (14,845) |
| Depreciation charge | (2,301) | (54,755) | (317) | (57,373) |
| | <u>67,240</u> | <u>246,601</u> | <u>107</u> | <u>313,948</u> |
| At 31 December 2020 | <u>67,240</u> | <u>246,601</u> | <u>107</u> | <u>313,948</u> |

The Group's prepaid land lease payments comprise leasehold interest in land situated in Mainland China on medium term leases.

Prepaid land lease payments with a net carrying amount of RMB55,570,000, RMB53,762,000 and RMB21,662,000 were pledged to secure general banking facilities granted to the Group as at 31 December 2018, 2019 and 2020, respectively. Details are given in note 29.

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the Relevant Periods are as follows:

| | Year ended 31 December | | |
|---|------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Carrying amount at 1 January | 36,728 | 116,523 | 137,430 |
| New leases | 86,906 | 51,502 | 28,042 |
| Acquisition of a subsidiary (note 34) | – | – | 25,965 |
| Early termination and modification of lease contracts | – | (2,591) | (14,845) |
| Accretion of interest recognised during the year | 2,776 | 5,775 | 7,774 |
| Payments | (9,887) | (33,779) | (39,502) |
| | <u>116,523</u> | <u>137,430</u> | <u>144,864</u> |
| Carrying amount at 31 December | | | |
| Analysed into: | | | |
| Current portion | 29,699 | 27,854 | 34,222 |
| Non-current portion | 86,824 | 109,576 | 110,642 |
| | <u>86,824</u> | <u>109,576</u> | <u>110,642</u> |

The maturity analysis of lease liabilities is disclosed in note 43 to the Historical Financial Information.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

| | Year ended 31 December | | |
|--|------------------------|---------------|---------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest on lease liabilities | 2,776 | 5,775 | 7,774 |
| Depreciation charge of right-of-use assets | 35,019 | 54,861 | 57,373 |
| Expense relating to short-term leases and leases of low-value assets | 2,307 | 2,108 | 3,083 |
| | <u>40,102</u> | <u>62,744</u> | <u>68,230</u> |
| Total amount recognised in profit or loss | | | |

(d) The total cash outflow for leases is disclosed in note 36(c) to the Historical Financial Information.**The Group as a lessor**

The Group leases its land and buildings under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group was RMB9,562,000, RMB9,458,000 and RMB7,196,000 for the years ended 31 December 2018, 2019 and 2020, respectively, details of which are included in note 5 to the Historical Financial Information.

At the end of each of the Relevant Periods, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | As at 31 December | | |
|---|-------------------|---------------|---------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 9,603 | 8,456 | 10,005 |
| After one year but within two years | 8,180 | 6,901 | 8,268 |
| After two years but within three years | 6,901 | 6,922 | 8,116 |
| After three years but within four years | 6,922 | 6,922 | 7,122 |
| After four years but within five years | 6,922 | 6,922 | 2,122 |
| After five years | 22,990 | 16,068 | 21,388 |
| | <u>61,518</u> | <u>52,191</u> | <u>57,021</u> |

16. GOODWILL

| | RMB'000 |
|--|------------------|
| Cost at 1 January 2018, net of impairment | 199,715 |
| Impairment during the year | <u>–</u> |
| At 31 December 2018, 31 December 2019 and 1 January 2020 | <u>199,715</u> |
| Acquisition of a subsidiary (note 34) | 10,681 |
| At 31 December 2020 | <u>210,396</u> |
| Cost | 851,746 |
| Accumulated impairment | <u>(652,031)</u> |
| At 1 January 2018, 31 December 2018, 31 December 2019 and 1 January 2020 | <u>199,715</u> |
| Cost | 862,427 |
| Accumulated impairment | <u>(652,031)</u> |
| At 31 December 2020 | <u>210,396</u> |

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the relevant 4S dealership business (or group of 4S dealership business) from which the goodwill resulted. The 4S dealership business is treated as a cash-generating unit ("CGU") for impairment testing.

The carrying amount of goodwill allocated to the CGU of the operation of 4S dealership business is as follows:

| | As at 31 December | | |
|------------------------|-------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| 4S dealership business | <u>199,715</u> | <u>199,715</u> | <u>210,396</u> |

The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

Key assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections.

Revenue from the sale and service of motor vehicles – the bases used to determine the future earnings of sale and service of motor vehicles are the historical sales and the average growth rate of similar 4S stores of the Group over the past years. The range of annual revenue growth rate within the five-year period at the end of each of the Relevant Periods is primarily from -3.34% to 12.77%. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from the end of each of the Relevant Periods is 3%.

Operating expenses – the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumptions reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit. The discount rates applied to the cash flow projections beyond the one-year period are 16.89%, 16.91% and 16.75% to 18.03% as at 31 December 2018, 2019 and 2020, respectively.

The values assigned to key assumptions on revenue from the sale and service of motor vehicles, operating expenses and discount rates are consistent with external information sources.

Details of the headroom measured by excess of the recoverable amounts over the carrying amounts of the CGU as at 31 December 2018, 2019 and 2020 are set out as follows:

| | As at 31 December | | |
|------------------------|--------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 4S dealership business | 254,029 | 261,404 | 527,431 |

Management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets forth the hypothetical changes to discount rate or annual revenue that would, in isolation, have removed the remaining headroom as at 31 December 2018, 2019 and 2020 are set out as follows:

| | As at 31 December | | |
|----------------------------|--------------------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| Increase in discount rate | 2.13% | 2.37% | 5.30% |
| Annual revenue decrease by | 4.85% | 5.61% | 8.88% |

At the end of each of the Relevant Periods, the directors of the Company considered no reasonably possible change in the key assumptions mentioned above would cause the carrying amounts of the CGU to exceed their recoverable amounts.

The directors of the Company determined that there was no impairment of its CGU at the end of each of the Relevant Periods.

17. INTANGIBLE ASSETS

| | Software RMB'000 | Dealership RMB'000 | Total RMB'000 |
|--|---------------------|-----------------------|------------------|
| 31 December 2018 | | | |
| Cost at 1 January 2018, net of accumulated amortisation | 22,192 | 562,213 | 584,405 |
| Additions | 510 | – | 510 |
| Amortisation provided during the year | (2,942) | (20,039) | (22,981) |
| At 31 December 2018 | <u>19,760</u> | <u>542,174</u> | <u>561,934</u> |
| At 31 December 2018: | | | |
| Cost | 27,598 | 601,180 | 628,778 |
| Accumulated amortisation | (7,838) | (59,006) | (66,844) |
| Net carrying amount | <u>19,760</u> | <u>542,174</u> | <u>561,934</u> |
| 31 December 2019 | | | |
| Cost at 1 January 2019, net of accumulated amortisation | 19,760 | 542,174 | 561,934 |
| Additions | 2,306 | – | 2,306 |
| Amortisation provided during the year | (3,173) | (20,039) | (23,212) |
| At 31 December 2019 | <u>18,893</u> | <u>522,135</u> | <u>541,028</u> |
| At 31 December 2019: | | | |
| Cost | 29,904 | 601,180 | 631,084 |
| Accumulated amortisation | (11,011) | (79,045) | (90,056) |
| Net carrying amount | <u>18,893</u> | <u>522,135</u> | <u>541,028</u> |
| 31 December 2020 | | | |
| Cost at 1 January 2020, net of accumulated amortisation | 18,893 | 522,135 | 541,028 |
| Acquisition of a subsidiary (note 34) | – | 31,357 | 31,357 |
| Amortisation provided during the year | (3,159) | (20,106) | (23,265) |
| At 31 December 2020 | <u>15,734</u> | <u>533,386</u> | <u>549,120</u> |
| At 31 December 2020: | | | |
| Cost | 29,904 | 632,537 | 662,441 |
| Accumulated amortisation | (14,170) | (99,151) | (113,321) |
| Net carrying amount | <u>15,734</u> | <u>533,386</u> | <u>549,120</u> |

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers acquired from third parties.

18. INVESTMENTS IN SUBSIDIARIES

| | As at 31 December | | |
|-------------------------------|-------------------|---------|---------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 36,253 | 36,253 | 36,253 |

Particulars of the subsidiaries of the Company are disclosed in note 1 to the Historical Financial Information.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 31 December | | |
|--|-------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Unlisted equity investments, at fair value | 10,000 | 10,000 | – |
| Financial products, at fair value | 185,920 | 197,000 | 439,000 |
| | <u>195,920</u> | <u>207,000</u> | <u>439,000</u> |
| Analysed into: | | | |
| Current assets | 185,920 | 197,000 | 439,000 |
| Non-current assets | 10,000 | 10,000 | – |
| | <u>195,920</u> | <u>207,000</u> | <u>439,000</u> |

The above unlisted equity investments at 31 December 2018, 2019 and 2020 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

Financial products at 31 December 2018, 2019 and 2020 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss.

20. INVENTORIES

| | As at 31 December | | |
|---------------------------------|-------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Motor vehicles | 780,229 | 642,038 | 408,896 |
| Spare parts and accessories | 50,746 | 53,109 | 43,725 |
| | <u>830,975</u> | <u>695,147</u> | <u>452,621</u> |
| Less: Provision for inventories | (12,050) | (17,133) | (7,658) |
| | <u>818,925</u> | <u>678,014</u> | <u>444,963</u> |

Inventories with a carrying amount of RMB108,958,000, RMB95,638,000 and RMB143,080,000 were pledged as security for bank and other loans and bills payable as at 31 December 2018, 2019 and 2020, respectively. Details are given in note 29.

21. TRADE RECEIVABLES

| | As at 31 December | | |
|-------------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Trade receivables | 71,313 | 65,294 | 38,246 |
| Impairment | — | — | — |
| | <u>71,313</u> | <u>65,294</u> | <u>38,246</u> |

The Group's trading terms with its customers are mainly on cash, except for some transactions which are traded on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

| | As at 31 December | | |
|--------------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Within 3 months | 67,863 | 61,151 | 37,943 |
| 3 to 6 months | 335 | 2,301 | 254 |
| 6 months to 1 year | 2,297 | 1,808 | 49 |
| Over 1 year | 818 | 34 | — |
| | <u>71,313</u> | <u>65,294</u> | <u>38,246</u> |

The Group has applied the simplified approach to provide for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days of ageing. The expected loss rate of trade receivables of the Group is assessed to be very low. There was no significant change in the ECL rates during the reporting period, mainly because there were no significant changes in the historical default rates of trade receivables, economic conditions and performance and behaviour of the customers, which the ECL rates were used as the basis for determining.

No expected credit loss of trade receivables was provided as at the end of each of the Relevant Periods.

The information about the credit risk exposure on the Group's trade receivables using a table mainly based on past due information unless other information is available without undue cost or effort is disclosed in note 43.

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | As at 31 December | | |
|-----------------------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Prepayments | 104,510 | 79,058 | 118,563 |
| Other receivables | 109,501 | 98,950 | 131,206 |
| Rebate receivables | 154,488 | 135,263 | 153,787 |
| Pawn receivables (note 1) | 31,880 | 17,900 | — |
| Value-added tax recoverable | 16,618 | 15,497 | 9,808 |
| Tax recoverable | 329 | 2,775 | — |
| | <u>417,326</u> | <u>349,443</u> | <u>413,364</u> |

| | As at 31 December | | |
|---|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Less: Non-current portion | (5,259) | (9,302) | (5,179) |
| Provision for impairment of other receivables (note 2) | (5,000) | (5,000) | (15,240) |
| Current portion | <u>407,067</u> | <u>335,141</u> | <u>392,945</u> |

Note 1: As at 31 December 2018 and 2019, the pawn receivables are interest-bearing and are pledged by assets with fair values of RMB72,000,000 and RMB82,000,000, respectively.

Note 2: As at 31 December 2018, 2019 and 2020, none of the balances, except for the other receivables with an aggregate carrying amount of RMB5,000,000, RMB5,000,000 and RMB15,240,000 respectively, which were impaired and fully provided, is either past due or impaired as they related to balances for whom there was no recent history of default.

23. PLEDGED DEPOSITS

| | As at 31 December | | |
|------------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Pledged deposits | <u>66,630</u> | <u>32,934</u> | <u>25,451</u> |

The pledged deposits, which were all denominated in RMB as at the end of each of the Relevant Periods, earn interest at interest rates stipulated by the respective financial institutions. The pledged deposits are deposited with creditworthy banks with no recent history of default and pledged to secure general banking facilities granted to the Group. Details are given in note 29.

24. CASH IN TRANSIT

| | As at 31 December | | |
|-----------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Cash in transit | <u>10,908</u> | <u>21,550</u> | <u>6,160</u> |

Cash in transit, which was all denominated in RMB as at the end of each of the Relevant Periods, represents the sales proceeds settled by credit cards, which have yet to be credited to the Group by the banks.

25. CASH AND CASH EQUIVALENTS

| | As at 31 December | | |
|------------------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Cash and bank balances | <u>249,315</u> | <u>374,721</u> | <u>230,672</u> |

Cash and bank balances of the Group denominated in RMB amounted to RMB240,158,000, RMB362,559,000 and RMB223,928,000 as at 31 December 2018, 2019 and 2020, respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

26. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

| | As at 31 December | | |
|--------------------|-------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 3 months | 61,401 | 83,239 | 143,697 |
| 3 to 6 months | 30,027 | 62 | 1,573 |
| 6 months to 1 year | – | 90 | 41 |
| Over 1 year | 70 | 263 | 314 |
| | <u>91,498</u> | <u>83,654</u> | <u>145,625</u> |

The trade payables are non-interest-bearing and are normally settled on 3-month terms.

27. OTHER PAYABLES AND ACCRUALS

| | As at 31 December | | |
|---------------------|-------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Other taxes payable | 39,664 | 49,488 | 66,393 |
| Payroll payable | 91,736 | 60,696 | 32,026 |
| Other payables | 70,716 | 39,032 | 71,428 |
| | <u>202,116</u> | <u>149,216</u> | <u>169,847</u> |

Other payables are non-interest-bearing and have no fixed terms of settlement.

28. CONTRACT LIABILITIES

| | As at 31 December | | |
|---|-------------------|------------------|------------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Advances from customers | 192,446 | 196,123 | 239,908 |
| Deferred revenue | 131,028 | 113,651 | 117,483 |
| | 323,474 | 309,774 | 357,391 |
| Portion classified as current liabilities | <u>(210,375)</u> | <u>(215,944)</u> | <u>(269,118)</u> |
| Non-current portion | <u>113,099</u> | <u>93,830</u> | <u>88,273</u> |

The contract liabilities primarily relate to the Group's obligations to transfer goods or services to customers for which the Group has received consideration from the customers.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | As at 31 December 2018 | | | As at 31 December 2019 | | | As at 31 December 2020 | | |
|---|-----------------------------|----------|-----------|-----------------------------|----------|---------|-----------------------------|----------|---------|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | | | | |
| Bank loans | | | | | | | | | |
| – secured | 4.35-6.65 | 2019 | 629,610 | 4.79-5.22 | 2020 | 444,700 | 3.90-4.79 | 2021 | 118,873 |
| – unsecured | 5.00-5.66 | 2019 | 348,000 | 4.85-5.22 | 2020 | 441,806 | 4.00-4.80 | 2021 | 158,412 |
| Other borrowings | | | | | | | | | |
| – secured | 5.07-7.10 | 2019 | 49,823 | 5.07-7.10 | 2020 | 59,776 | 6.13-7.60 | 2021 | 48,821 |
| Current portion of long term bank loans | | | | | | | | | |
| – secured | 5.70-6.65 | 2019 | 104,140 | – | – | – | – | – | – |
| | | | 1,131,573 | | | 946,282 | | | 326,106 |
| Non-current | | | | | | | | | |
| Bank loans | | | | | | | | | |
| – unsecured | 5.70-6.65 | 2020 | 36,700 | – | – | – | – | – | – |
| | | | 1,168,273 | | | 946,282 | | | 326,106 |

| | As at 31 December | | |
|------------------------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Analysed into: | | | |
| Bank loans: | | | |
| Within one year or on demand | 1,081,750 | 886,506 | 277,285 |
| In the second year | 36,700 | – | – |
| | 1,118,450 | 886,506 | 277,285 |
| Other borrowings: | | | |
| Within one year or on demand | 49,823 | 59,776 | 48,821 |
| | 1,168,273 | 946,282 | 326,106 |

(a) Certain of the Group's bank loans and other borrowings are secured by:

- (i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had an aggregate carrying amount of approximately RMB55,570,000, RMB53,762,000 and RMB21,662,000 as at 31 December 2018, 2019 and 2020, respectively;
- (ii) mortgages over the Group's buildings, which had an aggregate carrying amount of approximately RMB96,098,000, RMB27,929,000 and RMB21,703,000 as at 31 December 2018, 2019 and 2020, respectively;
- (iii) mortgages over the Group's inventories, which had a carrying amount of RMB108,958,000, RMB95,638,000 and RMB143,080,000 as at 31 December 2018, 2019 and 2020, respectively;
- (iv) mortgages over the entire shares of the subsidiaries including Tianjin BetterLife Auto Service Co., Ltd., Beijing BetterLife Star Auto Sales Co., Ltd., Beijing BetterLife International Trade Co., Ltd. and Hangzhou BetterLife Auto Co., Ltd. as at 31 December 2018; and
- (v) mortgages over the Group's deposits, which had a carrying amount of RMB66,630,000, RMB32,934,000 and RMB25,451,000 as at 31 December 2018, 2019 and 2020, respectively.

- (b) The Group's bank loans were guaranteed by Mr. Chou Patrick Hsiao-Po, amounting to RMB853,450,000 and RMB199,806,000 as at 31 December 2018 and 2019, respectively. The guarantee has been released as at 31 December 2020.
- (c) The Group's bank loans were guaranteed by some related parties, amounting to RMB30,000,000 as at 31 December 2018 and the loans were fully repaid in 2019.
- (d) The Group's other borrowings were guaranteed by some third parties, amounting to RMB30,347,000 and RMB23,103,000 as at 31 December 2018 and 2019, respectively. The guarantees have been released as at 31 December 2020.

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Deferred tax liabilities

| | Year ended 31 December 2018 | | |
|--|--|---|------------------|
| | Fair value adjustments arising from acquisition of subsidiaries RMB'000 | Depreciation allowance in excess of related depreciation RMB'000 | Total RMB'000 |
| At 1 January 2018 | 172,822 | 5,139 | 177,961 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) | (7,349) | 963 | (6,386) |
| Disposal of subsidiaries (note 35) | (22,043) | – | (22,043) |
| At 31 December 2018 | <u>143,430</u> | <u>6,102</u> | <u>149,532</u> |

Deferred tax assets

| | Year ended 31 December 2018 | | | | | | |
|--|-----------------------------|---|---------------------------------|--|-------------------|---|------------------|
| | Deferred revenue RMB'000 | Accrued payroll and social welfare RMB'000 | Impairment of assets RMB'000 | Depreciation in excess of related allowance RMB'000 | Leases RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
| At 1 January 2018 | 25,666 | 13,033 | 1,495 | 15,447 | 561 | 24,547 | 80,749 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | 208 | (2,014) | 585 | 2,126 | 67 | (20,880) | (19,908) |
| Disposal of subsidiaries (note 35) | – | (481) | – | (444) | – | (3,667) | (4,592) |
| At 31 December 2018 | <u>25,874</u> | <u>10,538</u> | <u>2,080</u> | <u>17,129</u> | <u>628</u> | <u>–</u> | <u>56,249</u> |

Deferred tax liabilities

| | Year ended 31 December 2019 | | |
|--|--|---|------------------|
| | Fair value adjustments arising from acquisition of subsidiaries RMB'000 | Depreciation allowance in excess of related depreciation RMB'000 | Total RMB'000 |
| At 1 January 2019 | 143,430 | 6,102 | 149,532 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) | (6,175) | 963 | (5,212) |
| At 31 December 2019 | <u>137,255</u> | <u>7,065</u> | <u>144,320</u> |

Deferred tax assets

| | Year ended 31 December 2019 | | | | | | |
|--|-----------------------------|---|---------------------------------|---|-------------------|---|------------------|
| | Deferred revenue RMB'000 | Accrued payroll and social welfare RMB'000 | Impairment of assets RMB'000 | Depreciation in excess of related depreciation allowance RMB'000 | Leases RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
| At 1 January 2019 | 25,874 | 10,538 | 2,080 | 17,129 | 628 | – | 56,249 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | (3,271) | (5,864) | (442) | (11,439) | 32 | 738 | (20,246) |
| At 31 December 2019 | <u>22,603</u> | <u>4,674</u> | <u>1,638</u> | <u>5,690</u> | <u>660</u> | <u>738</u> | <u>36,003</u> |

Deferred tax liabilities

| | Year ended 31 December 2020 | | |
|--|--|---|------------------|
| | Fair value adjustments arising from acquisition of subsidiaries RMB'000 | Depreciation allowance in excess of related depreciation RMB'000 | Total RMB'000 |
| At 1 January 2020 | 137,255 | 7,065 | 144,320 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) | (6,280) | 963 | (5,317) |
| Acquisition of a subsidiary (note 34) | 7,840 | – | 7,840 |
| At 31 December 2020 | <u>138,815</u> | <u>8,028</u> | <u>146,843</u> |

Deferred tax assets

| | Year ended 31 December 2020 | | | | | | |
|--|-----------------------------|---|---------------------------------|---|-------------------|---|------------------|
| | Deferred revenue RMB'000 | Accrued payroll and social welfare RMB'000 | Impairment of assets RMB'000 | Depreciation in excess of related depreciation allowance RMB'000 | Leases RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
| At 1 January 2020 | 22,603 | 4,674 | 1,638 | 5,690 | 660 | 738 | 36,003 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | (3,923) | (4,674) | 2,598 | (1,804) | 159 | (738) | (8,382) |
| At 31 December 2020 | <u>18,680</u> | <u>–</u> | <u>4,236</u> | <u>3,886</u> | <u>819</u> | <u>–</u> | <u>27,621</u> |

Deferred tax assets have not been recognised in respect of the following items:

| | As at 31 December | | |
|----------------------------------|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Deductible temporary differences | 76,245 | 75,909 | 75,312 |
| Tax losses | 114,221 | 333,628 | 293,003 |
| | <u>190,466</u> | <u>409,537</u> | <u>368,315</u> |

The above tax losses are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, 2019 and 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB710,553,000, RMB873,849,000 and RMB1,154,364,000 as at 31 December 2018, 2019 and 2020, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL

The Company was incorporated on 18 May 2018 under the laws of the Cayman Islands as an exempted company with authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of a par value of HK\$0.01 each.

At the date of incorporation, one share was issued and fully paid at par value.

| | As at 31 December 2018, 2019 and 2020 RMB'000 |
|--|--|
| Issued and fully paid: | |
| 1 (2018:1, 2019:1) ordinary share of HK\$0.01 each | —* |

* Less than RMB1,000.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

(a) Capital reserve

Capital reserve comprises contributions by the controlling shareholder at the respective dates.

(b) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2.4.

33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | As at 31 December | | |
|--|-------------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| Percentage of equity interest held by non-controlling interests (<i>note</i>): | | | |
| Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd. | 70% | 70% | 70% |
| Chengdu Baichuanxinbao Auto Sales and Services Co., Ltd. | 30% | 30% | 30% |
| | Year ended 31 December | | |
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit for the year allocated to non-controlling interests (<i>note</i>): | | | |
| Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd. | 33,311 | 32,626 | 37,350 |
| Chengdu Baichuanxinbao Auto Sales and Services Co., Ltd. | 29,921 | 32,405 | 34,228 |
| | <u>63,232</u> | <u>65,031</u> | <u>71,578</u> |

| | Year ended 31 December | | |
|---|------------------------|---------------|----------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Dividends paid to non-controlling interests (note): | | | |
| Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd. | 10,000 | 23,000 | 50,000 |
| Chengdu Baichuanxinbao Auto Sales and Services Co., Ltd. | 10,000 | 23,000 | 50,000 |
| | <u>20,000</u> | <u>46,000</u> | <u>100,000</u> |

| | As at 31 December | | |
|---|-------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Accumulated balances of non-controlling interests at the end of each of the Relevant Periods: | | | |
| Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd. | 115,803 | 125,429 | 112,779 |
| Chengdu Baichuanxinbao Auto Sales and Services Co., Ltd. | 55,976 | 65,381 | 49,609 |
| | <u>171,779</u> | <u>190,810</u> | <u>162,388</u> |

Note: According to the articles of association of the above two partly-owned subsidiaries, the attributable profits shall be both attributed to the Group and non-controlling interests with 50% and 50%, respectively.

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

| | Year ended 31 December | | |
|---|------------------------|-----------------|-----------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Chengdu Baichuanjinbao Auto Sales and Services Co., Ltd. | | | |
| Revenue | 915,352 | 1,043,867 | 1,134,812 |
| Total expenses | 43,941 | 48,717 | 49,339 |
| Profit for the year | 66,622 | 65,252 | 74,700 |
| Total comprehensive income for the year | <u>66,622</u> | <u>65,252</u> | <u>74,700</u> |
| | As at 31 December | | |
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Current assets | 201,986 | 185,621 | 192,767 |
| Non-current assets | 95,507 | 93,694 | 85,729 |
| Current liabilities | (80,031) | (46,154) | (74,219) |
| Non-current liabilities | <u>(31,271)</u> | <u>(27,718)</u> | <u>(24,134)</u> |

| | Year ended 31 December | | |
|--|------------------------|----------|-----------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Net cash flows from operating activities | 76,763 | 96,480 | 127,821 |
| Net cash flows used in investing activities | (102,522) | (20,109) | (26,448) |
| Net cash flows used in financing activities | (21,592) | (77,763) | (100,233) |
| Net (decrease)/increase in cash and cash equivalents | (47,351) | (1,392) | 1,140 |

| | Year ended 31 December | | |
|--|------------------------|-----------|-----------|
| Chengdu Baichuanxinbao Auto Sales and Services Co., Ltd. | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 891,567 | 1,018,836 | 1,084,987 |
| Total expenses | 48,227 | 48,231 | 49,241 |
| Profit for the year | 59,842 | 64,810 | 68,456 |
| Total comprehensive income for the year | 59,842 | 64,810 | 68,456 |

| | As at 31 December | | |
|-------------------------|-------------------|----------|----------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Current assets | 190,563 | 142,717 | 155,582 |
| Non-current assets | 113,382 | 109,482 | 99,413 |
| Current liabilities | (114,550) | (45,593) | (86,182) |
| Non-current liabilities | (35,547) | (33,948) | (27,699) |

| | Year ended 31 December | | |
|--|------------------------|-----------|-----------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Net cash flows from operating activities | 28,981 | 108,874 | 138,257 |
| Net cash flows (used in)/from investing activities | (21,396) | 15,511 | (61,705) |
| Net cash flows used in financing activities | (52,595) | (104,560) | (100,738) |
| Net (decrease)/increase in cash and cash equivalents | (45,010) | 19,825 | (24,186) |

34. BUSINESS COMBINATION

As disclosed in note 2.1, the Group acquired a 90% interest in Foshan Baide Laifu on 14 December 2020.

The fair values of the identifiable assets and liabilities of Foshan Baide Laifu as at the date of acquisition were as follows:

| | <i>Notes</i> | Fair value recognised on acquisition <i>RMB'000</i> |
|---|--------------|---|
| Property, plant and equipment | <i>13</i> | 8,121 |
| Intangible assets | <i>17</i> | 31,357 |
| Right-of-use assets | <i>15</i> | 25,965 |
| Cash and cash equivalents | | 5,346 |
| Prepayments, other receivables and other assets | | 1,111 |
| Inventories | | 422 |
| Deferred tax liabilities | <i>30</i> | (7,840) |
| Lease liabilities | <i>15</i> | (25,965) |
| | | <hr/> |
| Total identifiable net assets at fair value | | 38,517 |
| Non-controlling interests | | (3,852) |
| | | <hr/> |
| | | 34,665 |
| | | <hr/> <hr/> |
| Goodwill on acquisition | <i>16</i> | 10,681 |
| | | <hr/> |
| Satisfied by cash | | 45,346 |
| | | <hr/> <hr/> |

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | |
|---|-------------|
| Cash consideration | (45,346) |
| Cash and bank balances acquired | 5,346 |
| | <hr/> |
| Net outflow of cash and cash equivalents included in cash flows used in investing activities | (40,000) |
| | <hr/> <hr/> |

Since the acquisition, the acquired business contributed nil and RMB710,000 of loss to the Group's revenue and profit, respectively, for the year ended 31 December 2020.

Had the combination taken place on 1 January 2020, the revenue and profit of the Group for the year ended 31 December 2020 would have been RMB8,533,130,000 and RMB306,490,000, respectively.

35. DISPOSAL OF SUBSIDIARIES

| | <i>Notes</i> | Year ended 31 December | |
|---|--------------|-------------------------------|-----------------|
| | | 2018 | 2020 |
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| | | <i>(note 1)</i> | <i>(note 3)</i> |
| Net assets disposed of: | | | |
| Property, plant and equipment | 13 | 159,300 | 5,462 |
| Investment properties | 14 | 47,152 | – |
| Right-of-use assets | 15 | 207,112 | – |
| Deferred tax assets | 30 | 4,592 | – |
| Inventories | | – | 8,245 |
| Trade receivables | | – | 1,554 |
| Amounts due from related parties | | 112,103 | 48,174 |
| Prepayments, other receivables and other assets | | 623 | 19,129 |
| Pledged deposits | | – | 1,039 |
| Cash in transit | | – | 640 |
| Cash and cash equivalents | | 26,187 | 7,047 |
| Trade and bills payables | | – | (593) |
| Amounts due to related parties | | (19,500) | (7,398) |
| Other payables and accruals | | (8,781) | (9,977) |
| Contract liabilities | | – | (4,494) |
| Tax payable | | (21,466) | – |
| Deferred tax liabilities | 30 | (22,043) | – |
| | | <u>485,279</u> | <u>68,828</u> |
| Loss on disposal of subsidiaries deducted from retained profits | | (107,719) | – |
| Gain on disposal of subsidiaries | | – | 2,244 |
| | | <u>377,560</u> | <u>71,072</u> |
| Satisfied by: | | | |
| Cash (<i>note 2</i>) | | 4,560 | 71,072 |
| Offset with amounts due to related parties | | 373,000 | – |
| | | <u>377,560</u> | <u>71,072</u> |

Note 1: During the year ended 31 December 2018, the Group disposed of 100% interests of two subsidiaries and details are given in note 2.1.

Note 2: The amount of RMB4,560,000 was received in January 2019.

Note 3: During the year ended 31 December 2020, the Group disposed of 100% interests of three subsidiaries and details are given in note 2.1.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | Year ended 31 December | |
|--|-------------------------------|----------------|
| | 2018 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Cash consideration | – | 66,072 |
| Cash and cash equivalents disposed of | (26,187) | (7,047) |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | <u>(26,187)</u> | <u>59,025</u> |

36. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

- During the years ended 31 December 2018, 2019 and 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB86,906,000, RMB51,502,000 and RMB25,965,000, respectively, in respect of lease arrangements for land and buildings.
- As disclosed in note 35, the consideration for disposal of subsidiaries of RMB373,000,000 at 31 December 2018 was offset with amounts due to related parties.

(b) Changes in liabilities arising from financing activities

| | Interest-bearing bank and other borrowings <i>RMB'000</i> | Interest payables <i>RMB'000</i> | Sale and lease-back payables <i>RMB'000</i> | Lease liabilities <i>RMB'000</i> |
|---|--|-------------------------------------|--|-------------------------------------|
| At 1 January 2018 | 1,799,141 | 12,984 | 3,079 | 36,728 |
| Changes from financing cash flows | (630,868) | (85,974) | 2,035 | (9,887) |
| New leases | – | – | – | 86,906 |
| Interest expense (<i>note 7</i>) | – | 80,260 | 513 | 2,776 |
| At 31 December 2018 and 1 January 2019 | 1,168,273 | 7,270 | 5,627 | 116,523 |
| Changes from financing cash flows | (221,991) | (53,801) | (498) | (33,779) |
| New leases | – | – | – | 51,502 |
| Early termination and modification of lease contracts | – | – | – | (2,591) |
| Interest expense (<i>note 7</i>) | – | 49,405 | 1,062 | 5,775 |
| At 31 December 2019 and 1 January 2020 | 946,282 | 2,874 | 6,191 | 137,430 |
| Changes from financing cash flows | (621,450) | (33,804) | 1,589 | (39,502) |
| New leases | – | – | – | 28,042 |
| Acquisition of a subsidiary (<i>note 34</i>) | – | – | – | 25,965 |
| Early termination and modification of lease contracts | – | – | – | (14,845) |
| Interest expense (<i>note 7</i>) | – | 32,204 | 1,076 | 7,774 |
| At 31 December 2020 | <u>324,832</u> | <u>1,274</u> | <u>8,856</u> | <u>144,864</u> |

(c) Total cash outflow for leases

The total cash outflow for leases included in the statements of cash flows is as follows:

| | Year ended 31 December | | |
|-----------------------------|------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Within operating activities | 2,307 | 2,108 | 3,083 |
| Within financing activities | 9,887 | 33,779 | 39,502 |
| | <u>12,194</u> | <u>35,887</u> | <u>42,585</u> |

(d) Total taxes paid

The total taxes paid during the Relevant Periods were:

| | Year ended 31 December | | |
|-----------------------|-------------------------------|------------------|-----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Operating activities: | | | |
| Income taxes paid | (93,367) | (135,621) | (78,400) |
| Investing activities: | | | |
| Income taxes paid | (10,062) | — | — |
| | <u>(103,429)</u> | <u>(135,621)</u> | <u>(78,400)</u> |

37. CONTINGENT LIABILITIES

The Group did not have any contingent liabilities not disclosed in the Historical Financial Information at the end of each of the Relevant Periods.

38. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings are included in notes 13, 15, 20, 23 and 29 to the Historical Financial Information.

39. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

| | As at 31 December | | |
|-----------------------------------|--------------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Contracted, but not provided for: | | | |
| Property, plant and equipment | — | 2,423 | 8,629 |
| Intangible assets | 2,208 | — | — |
| | <u>2,208</u> | <u>2,423</u> | <u>8,629</u> |

40. RELATED PARTY TRANSACTIONS**(a) Name and relationship**

The directors of the Group are of the opinion that the following companies are related parties that had transactions or balances with the Group during the Relevant Periods.

| Name of related parties | Relationship with the Group |
|--|--|
| Mr. Chou Patrick Hsiao-Po | Controlling shareholder of the Company |
| Beijing Zhoushi Xingye International Trading Co., Ltd. | A fellow subsidiary |
| Beijing Zhoushi Xingye Branding and Management Co., Ltd. | A fellow subsidiary |
| Beijing Zhoushi Xingye Enterprise Management Co., Ltd.* | A fellow subsidiary |
| Oule (Hangzhou) Automobile Technology Co., Ltd. | A fellow subsidiary |
| eCapital (China) Leasing Co., Ltd. | A fellow subsidiary |
| Beijing Xiaobo Technology Co., Ltd. | A fellow subsidiary |

| Name of related parties | Relationship with the Group |
|--|---|
| Baiche Dianping (Beijing) Information Technology Co., Ltd. | A fellow subsidiary |
| Tianjin Zhoushi International Trade Co., Ltd.* | A fellow subsidiary |
| Chou International Investment Co., Limited | A fellow subsidiary |
| BetterLife (China) Investment Co., Limited | A fellow subsidiary |
| Tianjin Zhoushi Xingye Leasing Co., Ltd. | A fellow subsidiary |
| BetterLife Global Auctioneering Co., Ltd. | A fellow subsidiary |
| eCapital Technology Development Group Ltd. | Controlled by the brother of the controlling shareholder |
| Sichuan Chuanwu Automobile Import and Export Trade Corporation | A fellow subsidiary of non-controlling interests |
| Chengdu Chuanwu Investment Co., Ltd. | Non-controlling interests |
| Chengdu Riyue Industrial Development Co., Ltd.** | Jointly controlled by a fellow subsidiary and non-controlling interests |

* The above two related parties were wholly-owned subsidiaries of the Group before the completion of disposal of subsidiaries. Details are given in note 2.1 and 35.

** Chengdu Riyue Industrial Development Co., Ltd. became a related party of the Group since December 2020.

(b) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties for the years ended 31 December 2018, 2019 and 2020:

| | Year ended 31 December | | |
|---|------------------------|---------------|---------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Lease payments: | | | |
| Oule (Hangzhou) Automobile Technology Co., Ltd. (i) | 2,412 | 1,976 | 1,976 |
| Beijing Zhoushi Xingye Enterprise Management Co., Ltd. (ii) | – | 16,341 | 21,070 |
| Beijing Zhoushi Xingye International Trading Co., Ltd. | 1,622 | 1,651 | 1,254 |
| Tianjin Zhoushi International Trade Co., Ltd. (iii) | – | 7,680 | 7,176 |
| Sichuan Chuanwu Automobile Import and Export Trade Corporation (iv) | 232 | 232 | 232 |
| Chengdu Riyue Industrial Development Co., Ltd. (v) | – | – | 56 |
| | <u>4,266</u> | <u>27,880</u> | <u>31,764</u> |
| Rental income from: | | | |
| eCapital (China) Leasing Co., Ltd. | 1,522 | 1,522 | – |
| eCapital Technology Development Group Ltd. | – | – | 669 |
| Beijing Xiaobo Technology Co., Ltd. | 1,301 | – | – |
| Baiche Dianping (Beijing) Information Technology Co., Ltd. | 700 | – | – |
| | <u>3,523</u> | <u>1,522</u> | <u>669</u> |

| | Year ended 31 December | | |
|--|------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Insurance agency income from: Sichuan Chuanwu Automobile Import and Export Trade Corporation | 8,370 | 5,443 | 5,777 |
| Commission income from: eCapital (China) Leasing Co., Ltd. | 32 | 35 | 59 |
| Sales of motor vehicles: eCapital (China) Leasing Co., Ltd. | 54,299 | 52,538 | 46,324 |
| Purchase of services and goods from: Beijing Xiaobo Technology Co., Ltd. | 10,042 | 6,799 | 11,534 |
| Baiche Dianping (Beijing) Information Technology Co., Ltd. | 3,472 | 115 | – |
| Sichuan Chuanwu Automobile Import and Export Trade Corporation | 635 | 763 | 1,701 |
| Beijing Zhoushi Xingye Branding and Management Co., Ltd. | 5,596 | 21,055 | 6,466 |
| Beijing Zhoushi Xingye Enterprise Management Co., Ltd. | – | 6,297 | 13,240 |
| Tianjin Zhoushi International Trade Co., Ltd. | – | 432 | 339 |
| Chengdu Chuanwu Investment Co., Ltd. | – | – | 1,186 |
| | <u>19,745</u> | <u>35,461</u> | <u>34,466</u> |
| Interest income from: eCapital (China) Leasing Co., Ltd. | 5,667 | 8,600 | 3,249 |
| eCapital Technology Development Group Ltd. | – | – | 4,291 |
| Beijing Zhoushi Xingye Branding and Management Co., Ltd. | – | – | 1,619 |
| Tianjin Zhoushi Xingye Leasing Co., Ltd. | – | – | 326 |
| Beijing Zhoushi Xingye International Trading Co., Ltd. | – | – | 326 |
| BetterLife Global Auctioneering Co., Ltd. | – | – | 408 |
| Beijing Xiaobo Technology Co., Ltd. | – | – | 348 |
| | <u>5,667</u> | <u>8,600</u> | <u>10,567</u> |
| Interest expense on sale and lease-back transactions: eCapital (China) Leasing Co., Ltd. | 513 | 1,062 | 1,064 |
| Finance cost paid to: eCapital (China) Leasing Co., Ltd. | 1,823 | 1,162 | 809 |

Notes:

- (i) The Group entered into a property leasing agreement with Oule (Hangzhou) Automobile Technology Co., Ltd., and accordingly recognised lease liabilities of RMB4,662,000, RMB8,780,000 and RMB6,689,000 as at 31 December 2018, 2019 and 2020, respectively.
- (ii) The Group entered into some property leasing agreements with Beijing Zhoushi Xingye Enterprise Management Co., Ltd., and accordingly recognised lease liabilities of RMB72,745,000, RMB61,143,000 and RMB61,337,000 as at 31 December 2018, 2019 and 2020, respectively.
- (iii) The Group entered into a property leasing agreement with Tianjin Zhoushi International Trade Co., Ltd., and accordingly recognised lease liabilities of RMB7,627,000, RMB38,900,000 and RMB19,463,000 as at 31 December 2018, 2019 and 2020, respectively.
- (iv) The Group entered into a property leasing agreement with Sichuan Chuanwu Automobile Import and Export Trade Corporation, and accordingly recognised lease liabilities of RMB1,530,000 and RMB1,624,000 and RMB1,498,000 as at 31 December 2018, 2019 and 2020, respectively.
- (v) The Group entered into a property leasing agreement with Chengdu Riyue Industrial Development Co., Ltd., and accordingly recognised lease liabilities of RMB5,230,000 as at 31 December 2020.

These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

(c) Other transactions with related parties

- (i) During the Relevant Periods, the Group sold its motor vehicles to eCapital (China) Leasing Co., Ltd., which were leased back for use by the Group. The proceeds from the sale and lease-back transactions amounted to approximately RMB9,948,000, RMB12,047,000 and RMB16,918,000 for the years ended 31 December 2018, 2019 and 2020, respectively. Lease payments of the sale and lease-back transactions amounted to approximately RMB7,913,000, RMB12,545,000 and RMB15,329,000 for the years ended 31 December 2018, 2019 and 2020, respectively. The annual interest rates of the sale and lease-back transactions ranged from 11.78% to 18.39%. In addition, rental fees of utilising the license plates owned by eCapital (China) Leasing Co., Ltd. amounted to approximately RMB493,000, RMB924,000 and RMB2,732,000 for the years ended 31 December 2018, 2019 and 2020, respectively.

As at 31 December 2018, 2019 and 2020, sale and lease-back liabilities with eCapital (China) Leasing Co., Ltd. were RMB5,627,000, RMB6,191,000 and RMB8,856,000, respectively.

- (ii) During the Relevant Periods, the Group sold its motor vehicles to certain customers and then the customers carried out mortgage arrangements with eCapital (China) Leasing Co., Ltd. The proceeds from sale of motor vehicles were partly paid by eCapital (China) Leasing Co., Ltd., which amounted to RMB7,418,000, RMB10,449,000 and nil for the years ended 31 December 2018, 2019 and 2020, respectively.
- (iii) The Group provided guarantees for banks and financial institutions in connection with facilities granted to eCapital (China) Leasing Co., Ltd., amounting to RMB383,905,000 and RMB85,200,000 as at 31 December 2018 and 2019, respectively. The guarantees have been released as at 31 December 2020.
- (iv) The Group's bank loans were guaranteed by Mr. Chou Patrick Hsiao-Po, amounting to RMB853,450,000 and RMB199,806,000 as at 31 December 2018 and 2019, respectively. The guarantee has been released as at 31 December 2020.
- (v) The Group's bank loans were guaranteed by some related parties, amounting to RMB30,000,000 as at 31 December 2018 and the loans were fully repaid in 2019.
- (vi) On 22 June 2020, the Group entered into an agreement with Beijing Zhoushi Xingye Enterprise Management Co., Ltd., to dispose of its interests of an unlisted equity investment at a cash consideration of RMB10,500,000.

(d) Balances with related parties

| | As at 31 December | | |
|--|-------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Amounts due from related parties: | | | |
| eCapital (China) Leasing Co., Ltd. | 88,372 | 52,237 | 2,860 |
| Beijing Zhoushi Xingye Enterprise Management Co., Ltd. | – | 50,000 | 18,644 |
| Chou International Investment Co., Limited | 4,635 | – | – |
| BetterLife (China) Investment Co., Limited | 6,000 | – | – |
| Beijing Xiaobo Technology Co., Ltd. | 1,200 | – | – |
| eCapital Technology Development Group Ltd. | 2,113 | – | – |
| Sichuan Chuanwu Automobile Import and Export Trade Corporation | 2,102 | 2,165 | 413 |
| | <u>104,422</u> | <u>104,402</u> | <u>21,917</u> |
| Amounts due to related parties: | | | |
| eCapital (China) Leasing Co., Ltd. | 7,363 | 6,960 | 10,979 |
| Beijing Xiaobo Technology Co., Ltd. | – | 6,163 | – |
| Baiche Dianping (Beijing) Information Technology Co., Ltd. | – | 3 | – |
| Tianjin Zhoushi International Trade Co., Ltd. | – | 4 | – |
| Sichuan Chuanwu Automobile Import and Export Trade Corporation | – | – | 27 |
| Beijing Zhoushi Xingye Enterprise Management Co., Ltd. | 1,103 | – | 53 |
| | <u>8,466</u> | <u>13,130</u> | <u>11,059</u> |

The Group had an interest-bearing principal balance due from eCapital (China) Leasing Co., Ltd., which amounted to RMB84,000,000, RMB50,000,000 and nil as at 31 December 2018, 2019 and 2020, respectively. It is unsecured with no fixed terms of repayment and the annual interest rate is 7%.

The Group had a non-interest-bearing balance due from Beijing Zhoushi Xingye Enterprise Management Co., Ltd., which amounted to RMB50,000,000 as at 31 December 2019. It is unsecured with no fixed terms of repayment, and the loan was fully repaid in 2020.

Except for the loans to related parties amounted to RMB96,058,000, RMB100,000,000 and nil as at 31 December 2018, 2019 and 2020, respectively, which were non-trade in nature, the amounts due from/to the related parties were trade in nature.

Except for the above receivables and sale and lease-back liabilities detailed in note 40(c) above, the balances with related parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

(e) Compensation of key management personnel of the Group:

| | Year ended 31 December | | |
|---|------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
| Short term employee benefits | 4,416 | 4,732 | 6,863 |
| Post-employment benefits | 206 | 210 | 21 |
| Total compensation paid to key management personnel | <u>4,622</u> | <u>4,942</u> | <u>6,884</u> |

Further details of directors' and the chief executive's emoluments are included in note 8 to the Historical Financial Information.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

31 December 2018

Financial assets

| | Financial assets at amortised cost <i>RMB'000</i> | Financial assets at fair value through profit or loss <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|---|-------------------------|
| Trade receivables | 71,313 | – | 71,313 |
| Financial assets included in prepayments, other receivables and other assets | 290,869 | – | 290,869 |
| Amounts due from related parties | 104,422 | – | 104,422 |
| Financial assets at fair value through profit or loss | – | 195,920 | 195,920 |
| Cash in transit | 10,908 | – | 10,908 |
| Pledged deposits | 66,630 | – | 66,630 |
| Cash and cash equivalents | 249,315 | – | 249,315 |
| | <u>793,457</u> | <u>195,920</u> | <u>989,377</u> |

Financial liabilities

| | Financial liabilities at amortised cost <i>RMB'000</i> |
|--|---|
| Trade and bills payables | 91,498 |
| Lease liabilities | 116,523 |
| Financial liabilities included in other payables and accruals | 70,716 |
| Financial liabilities included in amounts due to related parties | 8,466 |
| Interest-bearing bank and other borrowings | <u>1,168,273</u> |
| | <u>1,455,476</u> |

31 December 2019

Financial assets

| | Financial assets at amortised cost <i>RMB'000</i> | Financial assets at fair value through profit or loss <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|---|-------------------------|
| Trade receivables | 65,294 | – | 65,294 |
| Financial assets included in prepayments, other receivables and other assets | 247,113 | – | 247,113 |
| Amounts due from related parties | 104,402 | – | 104,402 |
| Financial assets at fair value through profit or loss | – | 207,000 | 207,000 |
| Cash in transit | 21,550 | – | 21,550 |
| Pledged deposits | 32,934 | – | 32,934 |
| Cash and cash equivalents | 374,721 | – | 374,721 |
| | <u>846,014</u> | <u>207,000</u> | <u>1,053,014</u> |

Financial liabilities

| | Financial liabilities at amortised cost <i>RMB'000</i> |
|--|---|
| Trade and bills payables | 83,654 |
| Lease liabilities | 137,430 |
| Financial liabilities included in other payables and accruals | 39,032 |
| Financial liabilities included in amounts due to related parties | 13,130 |
| Interest-bearing bank and other borrowings | 946,282 |
| | <u>1,219,528</u> |

31 December 2020

Financial assets

| | Financial assets at amortised cost <i>RMB'000</i> | Financial assets at fair value through profit or loss <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|---|-------------------------|
| Trade receivables | 38,246 | – | 38,246 |
| Financial assets included in prepayments, other receivables and other assets | 269,753 | – | 269,753 |
| Amounts due from related parties | 8,267 | – | 8,267 |
| Financial assets at fair value through profit or loss | – | 439,000 | 439,000 |
| Cash in transit | 6,160 | – | 6,160 |
| Pledged deposits | 25,451 | – | 25,451 |
| Cash and cash equivalents | 230,672 | – | 230,672 |
| | <u>578,549</u> | <u>439,000</u> | <u>1,017,549</u> |

Financial liabilities

| | Financial liabilities at amortised cost <i>RMB'000</i> |
|--|--|
| Trade and bills payables | 145,625 |
| Lease liabilities | 144,864 |
| Financial liabilities included in other payables and accruals | 71,428 |
| Financial liabilities included in amounts due to related parties | 8,917 |
| Interest-bearing bank and other borrowings | 326,106 |
| | <hr/> |
| | 696,940 |
| | <hr/> <hr/> |

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, pledged deposits, cash in transit, the current portion of interest-bearing bank and other borrowings, trade and bills payables, amounts due from/to related parties, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018, 2019 and 2020 was assessed to be insignificant.

The fair values of unlisted equity investments have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price to sales ("P/S") multiple, price to earnings ("P/E") multiple and enterprise value divided by earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is the discounts for lack of marketability ("DLOM") or the discounts for the size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of each of the Relevant Periods.

The Group invests in financial products, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

Below is a summary of significant unobservable inputs to the valuation of the investment portfolio together with quantitative sensitivity analysis as at 31 December 2018 and 2019:

| | Valuation technique | Significant unobservable inputs | Range | Sensitivity of fair value to the input |
|--|----------------------------------|---------------------------------|--|---|
| Unlisted equity investments as at 31 December 2018 | Market-based valuation technique | Price multiple | P/S multiple: 0.58 to 6.28 EV/EBITDA multiple: 14.88 | 5% increase/decrease in P/S multiple and EV/EBITDA multiple would result in an increase/decrease in fair value by RMB238,000/RMB242,000 |
| | | DLOM | 20% to 30% | 5% increase/decrease in DLOM would result in a decrease/increase in fair value by RMB74,000/RMB72,000 |
| Unlisted equity investments as at 31 December 2019 | Market-based valuation technique | Price multiple | P/S multiple: 0.57 to 6.59 P/E multiple: 18.53 to 54.30 | 5% increase/decrease in P/S multiple and P/E multiple would result in an increase/decrease in fair value by RMB258,000/RMB250,000 |
| | | DLOM | 6% to 30% | 5% increase/decrease in DLOM would result in a decrease/increase in fair value by RMB84,000/RMB88,000 |

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

| | Fair value measurement using | | | Total RMB'000 |
|---|--|--|--|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Financial assets at fair value through profit or loss | – | 185,920 | 10,000 | 195,920 |

As at 31 December 2019

| | Fair value measurement using | | | Total RMB'000 |
|---|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Financial assets at fair value through profit or loss | – | 197,000 | 10,000 | 207,000 |

As at 31 December 2020

| | Fair value measurement using | | | Total RMB'000 |
|---|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Financial assets at fair value through profit or loss | – | 439,000 | – | 439,000 |

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at the end of each of the Relevant Periods.

Liabilities for which fair values are disclosed

As at 31 December 2018

| | Fair value measurement using | | | Total RMB'000 |
|--|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Interest-bearing bank and other borrowings included in non-current liabilities | – | 36,017 | – | 36,017 |

As at 31 December 2019 and 2020, there are no liabilities for which fair values are disclosed.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, financial assets at fair value through profit or loss and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has no significant interest-bearing assets other than pawn receivables (note 22), pledged deposits (note 23) and cash and cash equivalents (note 25).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 29. Borrowings at variable rates expose the Group to the risk of changes on market interest rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | Increase/(decrease) in basis points | Increase/(decrease) in profit before tax RMB'000 |
|-----------------------------|--|---|
| Year ended 31 December 2018 | | |
| RMB | 50 | (5,462) |
| RMB | (50) | 5,462 |
| Year ended 31 December 2019 | | |
| RMB | 50 | (2,942) |
| RMB | (50) | 2,942 |
| Year ended 31 December 2020 | | |
| RMB | 50 | (1,229) |
| RMB | (50) | 1,229 |

Foreign currency risk

The Company and its subsidiaries mainly transact in RMB. Management considers that the Group's exposure to foreign currency risk is not significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2018

| | 12-month ECLs | | Lifetime ECLs | | Simplified approach RMB'000 | Total RMB'000 |
|--|--------------------|--------------------|--------------------|--|--------------------------------|------------------|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | | | |
| Trade receivables* | – | – | – | | 71,313 | 71,313 |
| Financial assets included in prepayments, other receivables and other assets | | | | | | |
| – Normal** | 290,869 | – | – | | – | 290,869 |
| – Doubtful** | – | – | 5,000 | | – | 5,000 |
| Amounts due from related parties | | | | | | |
| – Normal** | 104,422 | – | – | | – | 104,422 |
| Cash in transit – Not yet past due | 10,908 | – | – | | – | 10,908 |
| Pledged deposits – Not yet past due | 66,630 | – | – | | – | 66,630 |
| Cash and cash equivalents – Not yet past due | 249,315 | – | – | | – | 249,315 |
| Guarantees provided to banks and financial institutions in connection with facilities granted to a related party | | | | | | |
| – Not yet past due | 383,905 | – | – | | – | 383,905 |
| | <u>1,106,049</u> | <u>–</u> | <u>5,000</u> | | <u>71,313</u> | <u>1,182,362</u> |

As at 31 December 2019

| | 12-month ECLs | | Lifetime ECLs | | Simplified approach RMB'000 | Total RMB'000 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------------------|------------------|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Stage 3 RMB'000 | | |
| Trade receivables* | – | – | – | – | 65,294 | 65,294 |
| Financial assets included in prepayments, other receivables and other assets | | | | | | |
| – Normal** | 247,113 | – | – | – | – | 247,113 |
| – Doubtful** | – | – | 5,000 | – | – | 5,000 |
| Amounts due from related parties | | | | | | |
| – Normal** | 104,402 | – | – | – | – | 104,402 |
| Cash in transit – Not yet past due | 21,550 | – | – | – | – | 21,550 |
| Pledged deposits – Not yet past due | 32,934 | – | – | – | – | 32,934 |
| Cash and cash equivalents – Not yet past due | 374,721 | – | – | – | – | 374,721 |
| Guarantees provided to banks and financial institutions in connection with facilities granted to a related party | | | | | | |
| – Not yet past due | 85,200 | – | – | – | – | 85,200 |
| | <u>865,920</u> | <u>–</u> | <u>5,000</u> | <u>–</u> | <u>65,294</u> | <u>936,214</u> |

As at 31 December 2020

| | 12-month ECLs | | Lifetime ECLs | | Simplified approach RMB'000 | Total RMB'000 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------------------|------------------|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Stage 3 RMB'000 | | |
| Trade receivables* | – | – | – | – | 38,246 | 38,246 |
| Financial assets included in prepayments, other receivables and other assets | | | | | | |
| – Normal** | 269,753 | – | – | – | – | 269,753 |
| – Doubtful** | – | – | 15,240 | – | – | 15,240 |
| Amounts due from related parties | | | | | | |
| – Normal** | 8,267 | – | – | – | – | 8,267 |
| Cash in transit – Not yet past due | 6,160 | – | – | – | – | 6,160 |
| Pledged deposits – Not yet past due | 25,451 | – | – | – | – | 25,451 |
| Cash and cash equivalents – Not yet past due | 230,672 | – | – | – | – | 230,672 |
| | <u>540,303</u> | <u>–</u> | <u>15,240</u> | <u>–</u> | <u>38,246</u> | <u>593,789</u> |

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 21 to the Historical Financial Information.

** The credit quality of amounts due from related parties and the financial assets included in prepayments, other receivables and other assets are considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

| As at 31 December 2018 | | | | | |
|--|------------------|--------------------|---------------------|----------------|------------------|
| | On demand | With 1 year | 1 to 5 years | Over 5 | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>years</i> | <i>RMB'000</i> |
| | | | | <i>RMB'000</i> | |
| Trade and bills payables | – | 91,498 | – | – | 91,498 |
| Financial liabilities included in other payables and accruals | 70,716 | – | – | – | 70,716 |
| Financial liabilities included in amounts due to related parties | 2,839 | 6,300 | – | – | 9,139 |
| Interest-bearing bank and other borrowings | – | 1,161,585 | 37,638 | – | 1,199,223 |
| Lease liabilities | – | 35,259 | 104,103 | 4,030 | 143,392 |
| Guarantees provided to banks and financial institutions in connection with facilities granted to a related party | 383,905 | – | – | – | 383,905 |
| | <u>457,460</u> | <u>1,294,642</u> | <u>141,741</u> | <u>4,030</u> | <u>1,897,873</u> |

| As at 31 December 2019 | | | | | |
|--|------------------|--------------------|---------------------|----------------|------------------|
| | On demand | With 1 year | 1 to 5 years | Over 5 | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>years</i> | <i>RMB'000</i> |
| | | | | <i>RMB'000</i> | |
| Trade and bills payables | – | 83,654 | – | – | 83,654 |
| Financial liabilities included in other payables and accruals | 39,032 | – | – | – | 39,032 |
| Financial liabilities included in amounts due to related parties | 6,939 | 6,529 | – | – | 13,468 |
| Interest-bearing bank and other borrowings | – | 983,413 | – | – | 983,413 |
| Lease liabilities | – | 35,102 | 118,181 | 2,878 | 156,161 |
| Guarantees provided to banks and financial institutions in connection with facilities granted to a related party | 85,200 | – | – | – | 85,200 |
| | <u>131,171</u> | <u>1,108,698</u> | <u>118,181</u> | <u>2,878</u> | <u>1,360,928</u> |

| | As at 31 December 2020 | | | | |
|--|------------------------|----------------|----------------|--------------|----------------|
| | On demand | With 1 year | 1 to 5 years | Over 5 | Total |
| | RMB'000 | RMB'000 | RMB'000 | years | RMB'000 |
| | | | | RMB'000 | |
| Trade and bills payables | – | 145,625 | – | – | 145,625 |
| Financial liabilities included in other payables and accruals | 71,428 | – | – | – | 71,428 |
| Financial liabilities included in amounts due to related parties | 61 | 9,746 | – | – | 9,807 |
| Interest-bearing bank and other borrowings | – | 332,257 | – | – | 332,257 |
| Lease liabilities | – | 44,355 | 122,842 | 9,022 | 176,219 |
| | <u>71,489</u> | <u>531,983</u> | <u>122,842</u> | <u>9,022</u> | <u>735,336</u> |

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and bills payables, lease liabilities, financial liabilities included in other payables and accruals and amounts due to related parties less cash and cash equivalents, cash in transit and pledged deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the each of the Relevant Periods were as follows:

| | As at 31 December | | |
|--|-------------------|------------------|------------------|
| | 2018 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing bank and other borrowings | 1,168,273 | 946,282 | 326,106 |
| Trade and bills payables | 91,498 | 83,654 | 145,625 |
| Lease liabilities | 116,523 | 137,430 | 144,864 |
| Financial liabilities included in other payables and accruals | 70,716 | 39,032 | 71,428 |
| Financial liabilities included in amounts due to related parties | 8,466 | 13,130 | 8,917 |
| Less: Cash and cash equivalents | (249,315) | (374,721) | (230,672) |
| Cash in transit | (10,908) | (21,550) | (6,160) |
| Pledged deposits | (66,630) | (32,934) | (25,451) |
| Net debt | <u>1,128,623</u> | <u>790,323</u> | <u>434,657</u> |
| Equity attributable to owners of the parent | <u>1,140,862</u> | <u>1,293,254</u> | <u>1,528,017</u> |
| Capital and net debt | <u>2,269,485</u> | <u>2,083,577</u> | <u>1,962,674</u> |
| Gearing ratio | <u>50%</u> | <u>38%</u> | <u>22%</u> |

44. EVENTS AFTER THE RELEVANT PERIODS

- (a) Since December 2019, there has been an outbreak of COVID-19 that rapidly spread across China and around the world. Central and local governments in China implemented administrative measures to contain the virus, including restrictions on domestic and international travel, extension of public holidays, staggered work shifts, and cancellations of various events and activities that would involve public gatherings. The Group's business operations have been impacted by the outbreak of COVID-19 in the first quarter of 2020 but have resumed normal gradually since April 2020. The Group will continue to monitor the development of COVID-19 closely, assess and react actively to its impact on the financial position and operating results of the Group.
- (b) On 12 January 2021, Yiwei (Beijing) Diandang Co., Ltd., a subsidiary of the Group primarily engaging in pawn loan services, was deregistered.
- (c) The board of directors of the Company conditionally approved a share option scheme on 17 June 2021. The total number of shares which may be issued upon exercise of all the options to be granted under the share option scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue as of the listing date.

45. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2020.

The following information does not form part of the Accountants' Report on the Historical Financial Information from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set forth in Appendix I to this prospectus, and is included herein for information purpose only.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") for illustration purpose only, and is set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets as of 31 December 2020 as if it had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets attributed to the owners of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of 31 December 2020 or any future date. It is prepared based on the consolidated net tangible assets as at 31 December 2020 as set out in the Historical Financial Information as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report or the Historical Financial Information as set out in Appendix I to this prospectus.

| | Consolidated net tangible assets attributable to owners of the Company as of 31 December 2020 | Estimated net proceeds from the Global Offering | Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as of 31 December 2020 | Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as of 31 December 2020 | |
|--|--|--|---|---|--------------------------------|
| | <i>RMB'000</i> <i>(Note 1)</i> | <i>RMB'000</i> <i>(Note 2)</i> | <i>RMB'000</i> | <i>RMB</i> <i>(Note 3)</i> | <i>HK\$</i> <i>(Note 4)</i> |
| Based on an Offer Price of HK\$4.00 per Share | 808,068 | 471,795 | 1,279,863 | 2.13 | 2.56 |
| Based on an Offer Price of HK\$4.80 per Share | 808,068 | 571,565 | 1,379,633 | 2.30 | 2.77 |

Notes:

- (1) The unaudited consolidated net tangible assets attributable to owners of the Company as of 31 December 2020 is extracted from the Historical Financial Information set out in Appendix I, which is based on the audited consolidated equity attributable to owners of the Company as of 31 December 2020 of approximately RMB1,528 million after deducting intangible assets attribute to owners of the Company and goodwill of RMB509.5 million of RMB210.4 million, respectively.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$4.00 and HK\$4.80 per Share, respectively, being the low-end and high-end prices of the stated Offer Price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company and the amounts per Offer Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 600,000,000 Shares were in issue assuming that the Global Offering had been completed on 31 December 2020 and the respective Offer Price of HK\$4.00 and HK\$4.80 per Offer Share.
- (4) In connection with the preparation of the unaudited pro forma financial information, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share are converted into Hong Kong dollars at a rate of HK\$1 = RMB0.83148. No representation is made that the RMB amounts have been, could have been or may be converted into Hong Kong dollar, or vice versa at that rate.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2020.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.



27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of BetterLife Holding Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of BetterLife Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2020, and related notes as set out on pages II-1 to II-2 of the prospectus dated 30 June 2021 issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Global Offering of shares of the Company on the Group's financial position as at 31 December 2020 as if the transaction had taken place at 31 December 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2020 on which an accountants' report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the 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 ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "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 behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, 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 accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 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 accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the 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 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 Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 transaction would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

30 June 2021

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on May 18, 2018 under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Act”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “Memorandum”) and its Amended and Restated Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that 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) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on June 17, 2021 with effect from the Listing Date. 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 Companies Act, 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 the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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 ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles to 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 requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls 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). A call may be made payable either in one lump sum or by installments. 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof 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 monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, 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, notwithstanding, 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors*(i) Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period 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 members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions 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 Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange 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 are 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 to their nominal value.

Neither the Company nor the board is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence

of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not 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

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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 Companies Act to be exercised or done by the Company in general meeting.

(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 assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, 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 ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be 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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making 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 past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any 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 entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of 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 therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, 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 thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for 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 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 contract or arrangement concerning an offer of shares or 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 contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members***(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, in the case of such members as 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 in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean 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 corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting, a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company, it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders 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 2 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.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers; and
 - (ee) the fixing of the remuneration of the directors and of the auditors.
- (v) *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, but the absence of a quorum shall not preclude the appointment of a chairman.

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.

(vi) 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 is 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 is 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 as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(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.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

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 whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their 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 moneys 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of 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 or bonuses unclaimed for six years after having been declared may be forfeited by the board and 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.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised 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 amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst 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 amongst the members as such shall be 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

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.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), 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, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. 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 shareholder and the Companies Act expressly provides that 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. 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 purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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 to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having 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 into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 6 June 2018.

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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law 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.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of 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 members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of 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 thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must 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.

As soon as the affairs of the 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 how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may

apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) 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, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Act") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on May 18, 2018. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 14, 2021 and our Company's principal place of business in Hong Kong is at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong. Mr. Cheung Kai Cheong Willie of 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong, a Hong Kong resident, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and the articles of association. A summary of the relevant aspects of the Companies Act and certain provisions of Articles of Association is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

As at the date of the incorporation of our Company, the authorized share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. At the time of incorporation, one fully-paid share was issued to the initial subscriber. On the same date, the said one share was transferred to Chou Dynasty for a consideration at par value.

Pursuant to the written resolutions of our Shareholder on June 17, 2021, the authorized share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of 962,000,000 Shares of HK\$0.01 each, which shall rank *pari passu* in all respects with the Shares in issue as at the date of the resolution.

Immediately following completion of the Global Offering and the Capitalization Issue and assuming that the Over-allotment Option is not exercised, the authorized share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares, of which 600,000,000 Shares will be issued and fully paid or credited as fully paid, and 400,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in "A. Further Information about Our Company — 4. Written resolutions of our Shareholder passed on June 17, 2021" in this Appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

There is no change in share capital of subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our Shareholder passed on June 17, 2021

Pursuant to the written resolutions of our Shareholder entitled to vote at general meetings of our Company, which were passed on June 17, 2021:

- (a) our Company approved and adopted the Memorandum of Association with immediate effect;
- (b) the authorized share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of 962,000,000 Shares of HK\$0.01 each, which shall rank *pari passu* in all respects with the Shares in issue as at the date of the resolution;
- (c) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued (pursuant to the Capitalization Issue, the Global Offering, the Over-allotment Option and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) by Macquarie (for itself and on behalf of Huatai and the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:
 - (i) our Company approved and adopted the Articles of Association;
 - (ii) conditional on the share premium account of our Company being credited as a result of the Global Offering, the sum of HK\$4,499,999.99 be capitalized and be applied in paying up in full at par 449,999,999 Shares for allotment and issue to our Shareholders whose names were on the register of members of our Company immediately prior to the Global Offering and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respect with the existing issued Shares;
 - (iii) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;

- (iv) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by our Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;
- (v) a general unconditional mandate was given to our Directors to exercise all the 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 require Shares to be allotted and issued), otherwise than by way of Rights Issue, or pursuant to any scrip dividend schemes or similar arrangements 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 or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by our Shareholders in general meeting, such number of Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering but before any exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within the next annual general meeting of our Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meetings of our Company varying or revoking the authority given to the Directors, whichever occurs first. For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations

under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognized regulatory body or any stock exchange applicable to our Company);

- (vi) a general unconditional mandate be and is hereby given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which was recognized by the SFC and the Stock Exchange for this purpose, such number of Shares not exceeding 10% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering but before the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of our Company is required by the Article of Association of our Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meeting of our Company varying or revoking the authority given to the Directors, whichever occurs first;
- (vii) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (c)(v) above by the addition to the Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to paragraph (c)(vi) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering but before the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme be and is approved; and

Each of the general mandates referred to in paragraphs (c)(v), (c)(vi) and (c)(vii) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on June 17, 2021 by our Shareholder, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) of not more than 10% of the total number of Shares in issue or to be issued immediately following completion of the Global Offering (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), further details of which have been described above in "A. Further Information about Our Company — 4. Written resolutions of our Shareholder passed on June 17, 2021" in this Appendix.

(ii) Source of funds

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Act. We are not permitted to repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable them 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 where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's 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 is exercised in full, it might have a material adverse effect on our working capital and/or 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 it 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.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes 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 consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No core connected person (as defined in the Listing Rules) has notified us that he/she/it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANIZATION

In order to streamline the corporate structure and rationalize our corporate structure for the Listing, our Group underwent the Corporate Reorganization. Please see “History and Reorganization — Corporate Reorganization” in this prospectus for details.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:


- (a) a framework equity acquisition agreement dated September 1, 2020 among BetterLife Tianjin, Foshan Shunde Guangshun Automobile Co., Ltd.* (佛山市順德區廣順汽車有限公司) (“Guangshun Automobile”) and Sun Zi’an (孫子安) in relation to the acquisition of 90% of equity interests in a wholly-owned project company to be established by Guangshun Automobile by Betterlife Tianjin at a consideration of RMB40,000,000;
- (b) an equity transfer agreement dated October 1, 2020 between Beijing BetterLife Group and Beijing Jiacheng Runjing Auto Sales and Services Co., Ltd.* (北京嘉程潤景汽車銷售服務有限公司) in relation to the disposal of 100% equity interests held by Beijing BetterLife Group in Tianjin Laifutai at a consideration of RMB50,000,000;
- (c) an equity acquisition agreement dated October 1, 2020 among BetterLife Tianjin, Guangshun Automobile and Sun Zi’an (孫子安) in relation to the acquisition of 90% of equity interests in Laifu Auto by BetterLife Tianjin at a consideration of RMB40,000,000 (subject to adjustment based on cash contribution made by Guangshun Automobile into Laifu Auto);
- (d) an equity acquisition agreement dated December 1, 2020 among Beijing BetterLife Group, Dalian Dachang Hezhong Auto Sales and Services Co., Ltd.* (大連大昌合眾汽車銷售服務有限公司) (“Dalian Dachang”), Xu Wengang (徐文剛), Zhang Lijuan (張俐娟), Qingdao BetterLife Sales and Qingdao BetterLife Auto in relation to the disposal of 100% equity interests held by Beijing BetterLife Group in Qingdao BetterLife Sales at an estimated consideration of RMB13,907,139.79 (subject to determination of a final consideration pursuant to the terms therein);

- (e) a rules for asset inventory treatment (資產清點處理約定細則) dated December 1, 2020 among Beijing BetterLife Group, Dalian Dachang, Xu Wengang (徐文剛), Zhang Lijuan (張俐娟) and Qingdao BetterLife Sales in relation to the rules for transfer of property rights of the assets pursuant to the equity acquisition agreement disclosed in paragraph (d) above;
- (f) an equity acquisition agreement dated December 11, 2020 among Weifang BetterLife, Dalian Dachang, Xu Wengang (徐文剛), Zhang Lijuan (張俐娟) and Weifang BetterLife Auto Sales and Services Co., Ltd.* (濰坊百得利汽車銷售服務有限公司) in relation to the disposal of 100% equity interests held by Weifang BetterLife in Weifang BetterLife Auto Sales and Services Co., Ltd.* (濰坊百得利汽車銷售服務有限公司) at a consideration of RMB3,732,398;
- (g) the Deed of Non-competition;
- (h) the Deed of Indemnity; and
- (i) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group








Trademarks



As at the Latest Practicable Date, we have registered 56 trademarks in the PRC and Hong Kong which, in the opinion of our Directors, are material to our business:

| No. | Trademark | Registered Owner | Place of registration | Class | Registration number | Expiry date |
|-----|---|--------------------|-----------------------|-------|---------------------|------------------|
| 1 | 待客以恒 | BetterLife Tianjin | PRC | 37 | 43234870 | August 27, 2030 |
| 2 | 待客以恒 | BetterLife Tianjin | PRC | 35 | 43218425 | August 27, 2030 |
| 3 | 百得利集团 | BetterLife Tianjin | PRC | 36 | 29744340 | February 6, 2029 |
| 4 | 百得利集团 | BetterLife Tianjin | PRC | 37 | 29742040 | April 6, 2029 |
| 5 | 百得利集团 | BetterLife Tianjin | PRC | 39 | 29722890 | February 6, 2029 |
| 6 |  | BetterLife Tianjin | PRC | 37 | 29703132 | April 13, 2029 |

| No. | Trademark | Registered Owner | Place of registration | Class | Registration number | Expiry date |
|-----|---|--------------------|-----------------------|-------|---------------------|--------------------|
| 7 |  | BetterLife Tianjin | PRC | 39 | 29699942 | April 6, 2029 |
| 8 |  | BetterLife Tianjin | PRC | 35 | 8340417 | July 6, 2031 |
| 9 |  | BetterLife Tianjin | PRC | 36 | 8340416 | October 27, 2021 |
| 10 |  | BetterLife Tianjin | PRC | 37 | 8340415 | April 13, 2022 |
| 11 | 百得利 | BetterLife Tianjin | PRC | 36 | 8340412 | November 13, 2021 |
| 12 | 百得利 | BetterLife Tianjin | PRC | 37 | 8340411 | April 6, 2024 |
| 13 | 百得利 | BetterLife Tianjin | PRC | 39 | 8340410 | January 13, 2022 |
| 14 | BetterLife | BetterLife Tianjin | PRC | 35 | 8340409 | October 20, 2021 |
| 15 | BetterLife | BetterLife Tianjin | PRC | 36 | 8340408 | August 20, 2031 |
| 16 | BetterLife | BetterLife Tianjin | PRC | 37 | 8340088 | September 13, 2021 |
| 17 | BetterLife | BetterLife Tianjin | PRC | 39 | 8340087 | June 6, 2031 |
| 18 |  | Tianjin Liya | PRC | 42 | 31191154 | March 6, 2029 |
| 19 |  | Tianjin Liya | PRC | 35 | 31190991 | March 6, 2029 |
| 20 |  | Tianjin Liya | PRC | 9 | 31178562 | March 6, 2029 |
| 21 | 壹百分百 — 壹 · 佰 · 分 · 百 — | Tianjin Liya | PRC | 42 | 31154961 | February 27, 2029 |
| 22 | 壹百分百 — 壹 · 佰 · 分 · 百 — | Tianjin Liya | PRC | 35 | 31154883 | May 13, 2029 |
| 23 | ywei online | Yiwei Cultural | PRC | 42 | 40998145 | September 6, 2030 |

| No. | Trademark | Registered Owner | Place of registration | Class | Registration number | Expiry date |
|-----|---|------------------|-----------------------|-------|---------------------|------------------|
| 24 | ywei online | Yiwei Cultural | PRC | 32 | 40992249 | May 6, 2030 |
| 25 | ywei online | Yiwei Cultural | PRC | 9 | 40981956 | April 27, 2030 |
| 26 | ywei online | Yiwei Cultural | PRC | 41 | 40977131 | April 27, 2030 |
| 27 | ywei online | Yiwei Cultural | PRC | 36 | 40975632 | April 27, 2030 |
| 28 | ywei online | Yiwei Cultural | PRC | 38 | 40971617 | April 27, 2030 |
| 29 | ywei online | Yiwei Cultural | PRC | 17 | 40962133 | June 27, 2030 |
| 30 | ywei online | Yiwei Cultural | PRC | 29 | 40960756 | April 20, 2030 |
| 31 | ywei online | Yiwei Cultural | PRC | 27 | 40960252 | April 27, 2030 |
| 32 | ywei online | Yiwei Cultural | PRC | 30 | 40959930 | April 20, 2030 |
| 33 | ywei online | Yiwei Cultural | PRC | 28 | 40951957 | April 20, 2030 |
| 34 | ywei online | Yiwei Cultural | PRC | 3 | 40949521 | April 20, 2030 |
| 35 | ywei online | Yiwei Cultural | PRC | 25 | 40946470 | April 27, 2030 |
| 36 | ywei online | Yiwei Cultural | PRC | 12 | 40941550 | April 20, 2030 |
| 37 | 沃世途 | Yiwei Cultural | PRC | 18 | 40026842 | April 27, 2030 |
| 38 |  | Yiwei Cultural | PRC | 27 | 37734266 | January 13, 2030 |
| 39 |  | Yiwei Cultural | PRC | 28 | 37733801 | January 20, 2030 |
| 40 |  | Yiwei Cultural | PRC | 17 | 37732210 | May 13, 2030 |
| 41 |  | Yiwei Cultural | PRC | 12 | 37725046 | January 20, 2030 |
| 42 |  | Yiwei Cultural | PRC | 3 | 37725000 | February 6, 2030 |

| No. | Trademark | Registered Owner | Place of registration | Class | Registration number | Expiry date |
|-----|---|------------------|-----------------------|---------------|---------------------|-------------------|
| 43 |  | Yiwei Cultural | PRC | 3 | 37724598 | January 13, 2030 |
| 44 |  | Yiwei Cultural | PRC | 17 | 37723540 | January 13, 2030 |
| 45 | <i>yiwei</i> | Yiwei Cultural | PRC | 27 | 37721369 | January 20, 2030 |
| 46 |  | Yiwei Cultural | PRC | 28 | 37718787 | January 13, 2030 |
| 47 |  | Yiwei Cultural | PRC | 12 | 37713810 | January 13, 2030 |
| 48 |  | Yiwei Cultural | PRC | 42 | 29798394 | February 6, 2029 |
| 49 |  | Yiwei Cultural | PRC | 9 | 29786459 | February 6, 2029 |
| 50 |  | Yiwei Cultural | PRC | 35 | 29773879 | April 27, 2029 |
| 51 | 一苇文化 | Yiwei Cultural | PRC | 9 | 29739822 | January 20, 2029 |
| 52 | 一苇文化 | Yiwei Cultural | PRC | 42 | 29734747 | June 20, 2029 |
| 53 | 一苇文化 | Yiwei Cultural | PRC | 35 | 29722482 | April 27, 2029 |
| 54 |  | Our Company | Hong Kong | 36, 37 and 39 | 304750777 | November 27, 2028 |

| No. | Trademark | Registered Owner | Place of registration | Class | Registration number | Expiry date |
|-----|---|------------------|-----------------------|---------------|---------------------|-------------------|
| 55 |  | Our Company | Hong Kong | 36, 37 and 39 | 304750768 | November 27, 2028 |
| 56 |  | Our Company | Hong Kong | 36, 37 and 39 | 304750759 | November 27, 2028 |

Domain Names

As at the Latest Practicable Date, we have registered the following domain names which, in the opinion of our Directors are material to our business:

| Registrant | Domain name | Date of registration | Expiration date |
|---------------------------------|--------------------------|----------------------|--------------------|
| Beijing BetterLife Group | blchina.com | January 16, 2006 | January 16, 2023 |
| Beijing BetterLife Group | wf-vw.com | April 9, 2014 | April 9, 2022 |
| Beijing BetterLife Group | hz-vw.com | July 22, 2011 | July 22, 2022 |
| Beijing BetterLife Group | betterlifecar.com | November 16, 2001 | November 16, 2022 |
| Beijing BetterLife Group | 百得利集团.net | November 26, 2020 | November 26, 2025 |
| Beijing BetterLife Group | 百得利集团.cn | November 26, 2020 | November 26, 2025 |
| Beijing BetterLife Group | 百得利集团.com | November 26, 2020 | November 26, 2025 |
| Beijing BetterLife Group | 百得利集团.网址 | November 26, 2020 | November 26, 2025 |
| Beijing BetterLife Experimental | bdlbjhd-volvocars.com.cn | September 17, 2018 | September 17, 2022 |
| Yiwei Cultural | yweionline.com | September 16, 2019 | September 16, 2021 |
| Yiwei Cultural | woshitu.com | September 29, 2019 | September 29, 2021 |
| Yiwei Cultural | ywei.shop | August 2, 2018 | August 3, 2021 |
| Yiwei Cultural | yweionline.net | September 16, 2019 | September 16, 2021 |
| Yiwei Cultural | woshitu.cn | September 29, 2019 | September 29, 2021 |
| Yiwei Cultural | woshitu.net | September 29, 2019 | September 29, 2021 |
| Yiwei Cultural | yweionline.cn | September 16, 2019 | September 16, 2021 |

D. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Directors' service contracts and letters of appointment**

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our independent non-executive Directors has entered into an appointment letter with us for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing by served by either party on the other, which notice shall not expire until after the fixed term.

The current basic annual salaries and fixed incentive bonus, if any, of our Directors are as follows:

| | |
|-----------------------|--------------|
| Chou Patrick Hsiao-Po | RMB1,155,000 |
| Sun Jing | RMB880,000 |
| Wei Hongjing | RMB1,760,000 |
| Chau Kwok Keung | RMB2,040,000 |
| Liu Dengqing | RMB306,000 |
| Wong Ka Kit | RMB306,000 |
| Yau Ka Chi | RMB306,000 |

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the years ended December 31, 2018, 2019 and 2020 the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB3,022,000, RMB3,297,000, and RMB4,306,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the years ended December 31, 2018, 2019 and 2020 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending December 31, 2021 will be approximately RMB6.30 million.

E. DISCLOSURE OF INTERESTS

1. Disclosure of interests

(a) Interests and short positions of our Directors in shares, underlying shares and debentures of our Company and our associated corporations following the Capitalization Issue and the Global Offering

Immediately following completion of the Capitalization Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive of our Company in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the shares, underlying shares and debentures of our Company and associated corporations:

Long positions in our Company

| Name of Director | Capacity/ Nature of interest | Immediately after the Capitalization Issue and the Global Offering ⁽¹⁾ | |
|-------------------------|--|---|---|
| | | Number of Shares | Percentage of shareholding in our Company |
| Mr. Chou ⁽²⁾ | Protector and beneficiary of a discretionary trust | 450,000,000 | 75.0% |

Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) Red Dynasty has issued two ordinary common shares in total, of which one share was issued to Serangoon Limited and one share to Seletar Limited, respectively. Each of Serangoon Limited and Seletar Limited has made a declaration of trust, confirming that the shares in Red Dynasty are held by them in their respective names as nominee and trustee for Credit Suisse Trust Limited as trustee of the Chou Family Trust.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Capitalization Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, so far as our Directors are aware, the following persons (not being a Director or chief executive of our Company) are expected to have interests or short positions in our Shares or underlying Shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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 members of our Group:

Interests and short positions in our shares and underlying shares of our Company and associated corporations:

Long position in our Shares

| Name | Capacity/ Nature of interest | Immediately after the Capitalization Issue and the Global Offering ⁽¹⁾ | |
|---|---|---|---|
| | | Number of Shares | Percentage of shareholding in our Company |
| Chou Dynasty | Beneficial owner | 450,000,000 | 75.0% |
| Red Dynasty | Interest in a controlled corporation | 450,000,000 | 75.0% |
| Credit Suisse Trust Limited ⁽²⁾ | Trustee | 450,000,000 | 75.0% |

Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) Red Dynasty has issued two ordinary common shares in total, of which one share was issued to Serangoon Limited and one share to Seletar Limited, respectively. Each of Serangoon Limited and Seletar Limited has made a declaration of trust, confirming that the shares in Red Dynasty are held by them in their respective names as nominee and trustee for Credit Suisse Trust Limited as trustee of the Chou Family Trust.

Long position in Chengdu Jinbao

| Name | Capacity/ Nature of interest | Immediately after the Capitalization Issue and the Global Offering | |
|-----------------------------------|---|--|--|
| | | Amount of registered capital | Approximate percentage of shareholding |
| Chengdu Chuanwu ⁽¹⁾ | Beneficial owner | RMB23,333,333 | 70.0% |
| Zhang Heng (張恆) | Interest in a controlled corporation | RMB23,333,333 | 70.0% |
| Zhang Yuan (張媛) | Interest in a controlled corporation | RMB23,333,333 | 70.0% |

Note:

- (1) Chengdu Chuanwu is a company incorporated in the PRC and ultimately and beneficially owned by a group of family members including Mr. Zhang Heng (張恆) (50%), Ms. Zhang Yuan (張媛) (30%), Ms. Hu Xiaoxia (胡曉霞) (10%) and Mr. Zhang Zheng (張政) (10%).

Long position in Chengdu Xinbao

| Name | Capacity/ Nature of interest | Immediately after the Capitalization Issue and the Global Offering | |
|-----------------------------------|---|--|--|
| | | Amount of registered capital | Approximate percentage of shareholding |
| Chengdu Chuanwu ⁽¹⁾ | Beneficial owner | RMB10,000,000 | 30.0% |
| Zhang Heng (張恆) | Interest in a controlled corporation | RMB10,000,000 | 30.0% |
| Zhang Yuan (張媛) | Interest in a controlled corporation | RMB10,000,000 | 30.0% |

Note:

- (1) Chengdu Chuanwu is a company incorporated in the PRC and ultimately and beneficially owned by a group of family members including Mr. Zhang Heng (張恆) (50%), Ms. Zhang Yuan (張媛) (30%), Ms. Hu Xiaoxia (胡曉霞) (10%) and Mr. Zhang Zheng (張政) (10%).

Long position in Laifu Auto

| Name | Capacity/ Nature of interest | Immediately after the Capitalization Issue and the Global Offering | |
|--|---|--|-------------------------------|
| | | Amount of registered capital | Percentage of shareholding |
| Guangshun Automobile ⁽¹⁾ | Beneficial owner | RMB1,500,000 | 10.0% |
| Sun Zi'an (孫子安) | Interest in a controlled corporation | RMB1,500,000 | 10.0% |

Note:

- (1) Guangshun Automobile is a company incorporated in the PRC and is ultimately and beneficially owned by Mr. Sun Zi'an.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive) who will, immediately after completion of the Capitalization Issue and the Global Offering (without taking into account Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of options granted under the Share Option Scheme and the Capitalization Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us 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 members of the Group;
- (b) none of our Directors has any interest or short position in any of our Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once our Shares are listed;

- (c) none of our Directors nor any of the parties listed in “G. Other Information — 10. Consents of experts” in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of our Directors nor any of the parties listed in “G. Other Information — 10. Consents 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 our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in “G. Other Information — 10. Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their close associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our Shareholders passed on June 17, 2021 and adopted by a resolution of our Board on June 17, 2021 (the “Adoption Date”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“Executive”), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“Employee”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the “Eligible Persons”).

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (such 10% limit representing 60,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by our Company) (the “Scheme Mandate Limit”) provided that:

- (a) our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10% of our Shares in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules;

- (b) our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company should issue a circular to our Shareholders containing the details and information required under the Listing Rules; and
- (c) the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Company's shares in issue from time to time. No Options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

4. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in our Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

5. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. Granting Options to connected persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5.0 million,

such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favor at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favor at such general meeting.

7. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after inside information has come to its knowledge until (and including) the trading day after such inside information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

8. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

9. Amount payable for Options and offer period

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date no later than 28 days after the offer date (the "Acceptance Date"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

10. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;

- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

11. Exercise of Option

- (a) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option period in the manner as set out in the Share Option Scheme by the grantee (or his or her legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his or her legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his or her legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.
- (b) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (c) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.
- (d) Subject as hereinafter provided and subject to the terms and conditions upon which the Option was granted, an Option may be exercised by the grantee at any time during the Option period, provided that:
 - (i) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full) and none of the events for termination of employment or engagement pursuant to the terms of the Share Option Scheme exists with respect to such grantee, he or she (or his or her legal representative(s)) may exercise the Option up to the grantee's entitlement immediately prior to the death or permanent disability (to the extent not already exercised) within a period of 12 months following his or her death or permanent disability or such longer period as the Board may determine;

- (ii) in the event that the grantee ceases to be an Executive for any reason (including his or her employing company ceasing to be a member of our Group) other than his or her death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his or her employment to an affiliate company or the termination of his or her employment with the relevant member of our Group by resignation or culpable termination, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
- (iii) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
- (iv) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his or her legal representatives or receiver) may until the expiry of the earlier of:
 - (1) the Option period;
 - (2) the period of two months from the date of such notice; or
 - (3) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his or her Option.
- (v) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her options at any time not later than two Business Days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by

giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

12. Life of Share Option Scheme

Subject to the terms of the Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it was adopted, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

13. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the Option period;
- (b) the expiry of any of the period referred to in paragraphs related to exercise of the Option;
- (c) subject to the terms of the period mentioned in “F. Share Option Scheme — 11. Exercise of Option” in this section, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgment, order or award outstanding against the grantee or the Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
- (e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in the Share Option Scheme with respect to the exercise of the Option;
- (f) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidations, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall give the Eligible Persons the same proportion of equity capital as they were previously entitled to. In respect of any such adjustments, other than any made on a capitalization issue, the auditors shall confirm to the Board in writing that the adjustments satisfy this requirement;
- (b) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable same as (but shall not be greater than) it was before such event;
- (c) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (d) any such adjustments shall be made to in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and
- (e) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

15. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the "Cancellation Date"):

- (a) the grantee commits or permits or attempts to commit or permit a breach of restriction on transferability of Option or any terms or conditions attached to the grant of the Option;

- (b) the grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue commencing from (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members. Accordingly, it will entitle the holders to participate in all dividends or other distributions paid or made on or after (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Shares issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

17. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

18. Transferability

The Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

19. Alteration of Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of our Shareholders in general meeting:

- (a) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Share Option Scheme);
- (b) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of grantee;
- (c) any change to the authority of the Board or any person or committee delegated by the Board pursuant to the Share Option Scheme to administer the day-to-day running of the Scheme; and
- (d) any alteration to the aforesaid alternation provisions,

provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of the Listing Rules.

20. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) the approval of our Shareholders for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of, and permission to deal in, a maximum of 60,000,000 Shares to be allotted and issued pursuant to the exercise of the Share Option Scheme in accordance with the terms and conditions of the Share Option Scheme;
- (c) the commencement of dealings in our Shares on the Stock Exchange; and
- (d) the obligations of the underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms thereof or otherwise.

If the permission referred to in paragraph (b) above is not granted within two calendar months after the Adoption Date:

- (i) the Share Option Scheme will forthwith terminate;

- (ii) any Option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect;
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any Option; and
- (iv) the Board may further discuss and devise another share option scheme that is applicable to a private company for adoption by our Company.

Application has been made to the Stock Exchange for the listing of 60,000,000 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

G. OTHER INFORMATION

1. Deed of Indemnity

Chou Dynasty and Mr. Chou have entered into the Deed of Indemnity with and in favor of our Company for ourselves and as trustee for our subsidiaries, to provide indemnities in respect of, among other things:

- (a) certain estate duty which might be payable by any companies in our Group by virtue of or under the provisions of the Estate Duty Ordinance (Chapter 111 of Laws of Hong Kong); and
- (b) any liability of any or all of the members of our Group to any form of taxation and duty whenever created or imposed, whether of Hong Kong, the PRC, the Cayman Island, the BVI or of any other part of the world, and without prejudice to the generality of the foregoing includes profits tax, provisional profits tax, business tax on gross income, income tax, value added tax, interest tax, salaries tax, property tax, land appreciation tax, lease registration tax, estate duty, capital gains tax, death duty, capital duty, stamp duty, payroll tax, withholding tax, rates, import, customs and excise duties and generally any tax duty, impost, levy or rate or any amount payable to the revenue, customs or fiscal authorities of local, municipal, provincial, national, state or federal level whether of Hong Kong, the PRC, the Cayman Island, the BVI or of any other part of the world falling on any of the members of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event on transaction on or before Listing Date whether alone or in conjunction with any circumstances whenever, however, or wherever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

The Deed of Indemnity does not cover any claim and Chou Dynasty and Mr. Chou shall be under no liability under this Deed of Indemnity in respect of above:

- (a) to the extent that provision or allowance has been made for such taxation in the consolidated financial statements of our Group as set out in the Accountants' Report set out in Appendix I to this prospectus or in the audited accounts of the relevant members of our Group for the years ended December 31, 2018, 2019 and 2020 ("Accounts"); or
- (b) for which any company of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after December 31, 2020 up to and including the Listing Date or consisting of any company of our Group ceasing, or being deemed to cease, to be a company in our Group for the purposes of any matter of the taxation; or
- (c) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in any part of the world coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Listing Date with retrospective effect; or
- (d) to the extent that any provision or reserve made for such taxation in the Accounts is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to our Company then the liability of Chou Dynasty and Mr. Chou (if any) in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excess reserve.

2. Litigation

As at the Latest Practicable Date, save as disclosed in "Business — Legal Proceedings and Regulatory Compliance — Legal Proceedings" in this prospectus, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$145,000 and have been paid by us.

4. Promoter

There are no promoters of our Company.

5. Sole Sponsor

The Sole Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Capitalization Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS. The Sole Sponsor confirms that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with the Sole Sponsor, pursuant to which our Company agreed to pay the Sole Sponsor a fee of USD1,000,000 to act as sponsor to our Company in the Global Offering.

6. No material adverse change

Our Directors confirm that there has been no material adverse change in our Company's financial or trading position or prospects since December 31, 2020 (being the date to which our latest audited consolidated financial statements were made up).

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

8. Miscellaneous

(1) Save as 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 or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) 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;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

- (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
 - (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (g) we have no outstanding convertible debt securities.
- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| Name | Qualification |
|---|---|
| Macquarie Capital Limited | Licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities |
| Ernst & Young | Certified Public Accountants Registered Public Interest Entity Auditor |
| Conyers Dill & Pearman | Cayman Islands legal advisors to our Company |
| Jingtian & Gongcheng | PRC legal advisor to our Company |
| Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. | Independent industry consultant |

10. Consents of experts

Each of the experts named in paragraph 9 of this Appendix has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (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 delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in “G. Other Information — 10. Consents of experts” in Appendix IV and copies of the material contracts referred to in “C. Further Information about Our Business — 1. Summary of the material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Morgan, Lewis & Bockius at Suites 1902-09, 19th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date that is 14 days from the date of this prospectus:

- (1) our Memorandum and the Articles of Association;
- (2) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (3) the audited financial statements prepared for the companies now comprising our Group for each of the three years ended December 31, 2020;
- (4) the report received from Ernst & Young on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the material contracts referred to in “C. Further Information about Our Business — 1. Summary of the material contracts” of Appendix IV to this prospectus;
- (6) the service contracts and letters of appointment with Directors, referred to in “D. Further Information about Our Directors — 1. Directors’ service contracts and letters of appointment” of Appendix IV to this prospectus;
- (7) the written consents referred to in “G. Other Information — 10. Consents of experts” of Appendix IV to this prospectus;
- (8) the PRC legal opinions prepared by Jingtian & Gongcheng, our legal advisor as to the PRC law, in respect of certain aspects of our Group and our property interests;
- (9) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands company law referred to in Appendix III to this prospectus;

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- (10) the Frost & Sullivan Report;
- (11) the Companies Act; and
- (12) the rules of the Share Option Scheme.



百得利控股有限公司
BetterLife Holding Limited