

INDUSTRY OVERVIEW

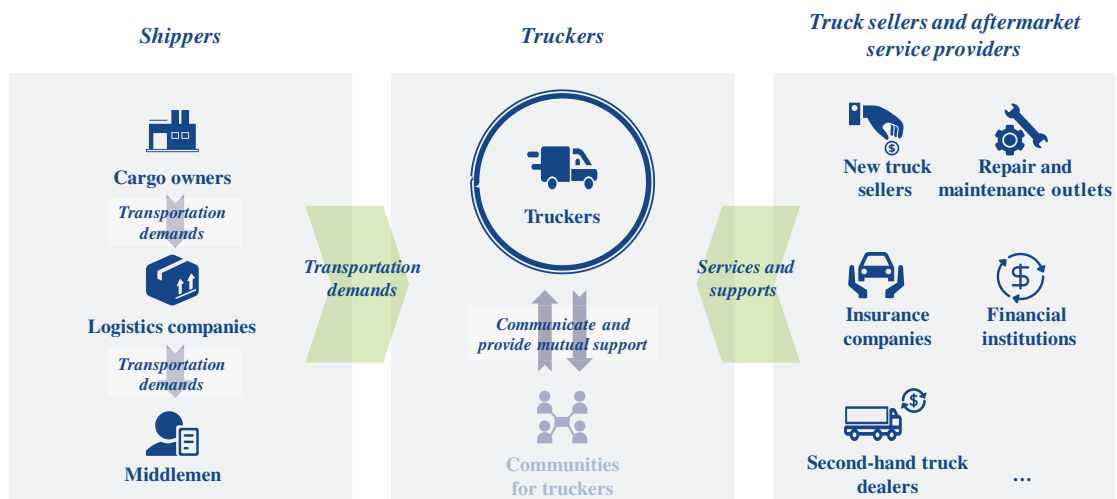
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OVERVIEW OF CHINA’S ROAD FREIGHT TRANSPORTATION ECOSYSTEM

China possesses the largest freight transportation market in the world in terms of shipping fees, with an overall market size of RMB9.0 trillion in 2021, according to CIC. The freight transportation industry can be further divided into road, railway, waterway, civil aviation and pipeline by mode of transportation.

Road freight transportation refers to the transportation of raw materials, semi-finished products and finished products by means of trucks on roads. In 2021, road freight transportation accounted for approximately 78% of the total freight transportation market in China in terms of freight volume, according to CIC. The main participants in road freight transportation comprise shippers, truckers, freight brokers and other ecosystem service partners such as truck sellers and truck aftermarket service providers, among others. Closely connected by the demands for, and the provision of, related services throughout the road freight transportation process, such participants together constitute a vibrant road freight transportation ecosystem.

Overview of China’s road freight transportation ecosystem



Source: CIC

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Compared to other modes of transportation, road freight transportation is more flexible in the choice of routes and the planning of schedules, which allows for high efficiency in delivery and an extensive geographic coverage. Such advantages have made road freight transportation the most preferred and most commonly used mode of transportation in China according to CIC. Driven by enormous demands for road freight transportation, the road freight transportation ecosystem in China has become the world’s largest, in terms of market size. According to CIC, the aggregate market size of the road freight transportation ecosystem in China increased from RMB8.4 trillion in 2017 to RMB10.5 trillion in 2021, in terms of GMV, representing a CAGR of 5.6% from 2017 to 2021. Such market is expected to further expand at a CAGR of 5.8% from 2021 onwards to reach a total of RMB13.9 trillion by 2026.

The aggregate market for road freight transportation ecosystem primarily consists of the market for road freight transportation and the market for truck sales and aftermarket services, which contributed 64% and 36% of the aggregate market for road freight transportation ecosystem in China in 2021, respectively. The market for road freight transportation and the market for truck sales and aftermarket services are expected to reach RMB8.7 trillion and RMB5.3 trillion by 2026, respectively, representing a CAGR of 5.1% and 7.0% from 2021 to 2026, respectively. In addition to such two major components, the communities for truckers play an integral role in the road freight transportation ecosystem, as it serves as a robust supply of transportation capacity for the market for road freight transportation, and generates considerable demands for the market for truck sales and aftermarket services.

OVERVIEW OF CHINA’S DIGITAL FREIGHT MARKET

Overview of China’s FTL market

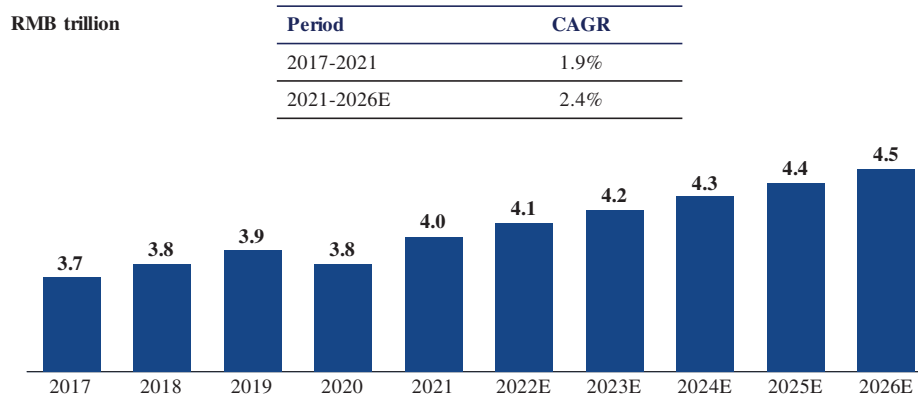
Road freight transportation can be further divided into the following three major segments, based on the weight of the goods transported:

- **Express:** Express shipping refers to the timely transportation services in which the shipment typically comprises a single piece and includes goods of a smaller volume and lower value.
- **Less-Than-Truckload (“LTL”):** LTL shipping refers to those transportation services in which the shipment is less or lighter than a full truckload, and typically involves combining a few shipments into one full truckload.
- **Full Truckload (“FTL”):** FTL shipping refers to those transportation services in which a dedicated shipment is able to fill up the entire truck. In FTL shipping, the shipments are typically shipped directly from the point of initial departure to the point of final destination.

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In 2021, FTL shipping comprised of approximately 60% of the road freight transportation market in China, in terms of shipping fees. According to CIC, the size of FTL market in China reached RMB4.0 trillion in 2021, and is expected to reach RMB4.5 trillion in 2026, representing a CAGR of 2.4% from 2021 to 2026.

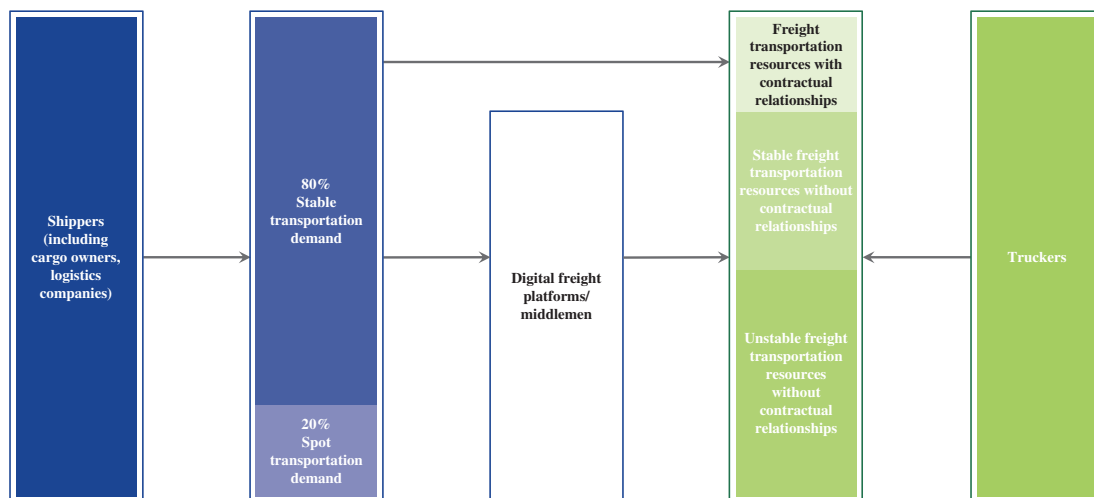
Market size of FTL transportation market in China, 2017-2026E



Source: CIC

The demands of shippers may be divided into stable and spot transportation demands. Large-scale enterprises generally have developed well-established product lines and customer base, and therefore, often have relatively stable, long-term and pre-scheduled demands for the transportation of raw materials, semi-finished products and finished products, usually in multiple batches and large volumes. According to CIC, such demands account for approximately 80% of a shipper’s FTL demands on average. Our digital freight business covers shippers with both stable and spot transportation demands, although shippers with stable transportation demands accounted for the majority of shippers we served during the Track Record Period.

Flow chart of FTL demands and supplies in China



Source: CIC

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Despite its large scale, the traditional FTL market in China remains highly fragmented and is characterized by low efficiency and a low level of digitalization along the value chain. The traditional FTL market in China has encountered the following challenges:

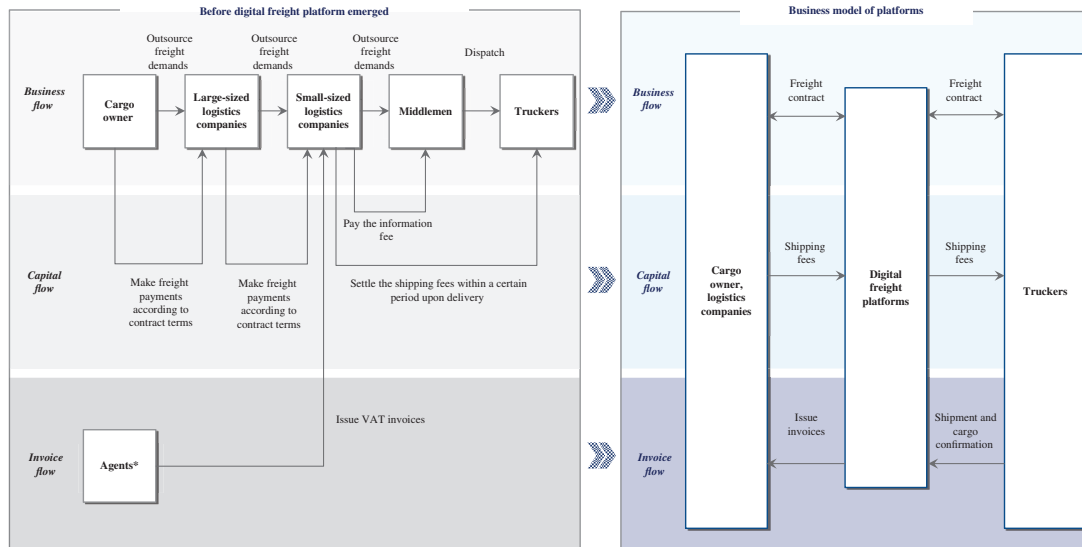
- ***Lengthy and opaque transaction process:*** Traditionally, the demands for transportation resources usually go through multiple layers of subcontracting before they are assigned by middlemen to individual truckers. The existence of middlemen increases the cost for shippers and decreases the income for truckers, thus hindering sustainable cooperation and diminishing balance and reciprocity between parties involved in the transaction. Such lengthy arrangements also make the transaction process more opaque, so that shippers may find it hard to keep track of shipping information in real-time. Furthermore, the traditional transaction process relies heavily on the personal trust between individual participants in the transactions rather than a credit-based system, which makes the transaction process more fragile and inefficient. Such weaknesses have compromised shippers’ control over the transaction process, making it harder for shippers to monitor the quality of the transportation services provided.
- ***Unmet needs in both stable supply, and stable demands in transportation resources:*** In pursuit of a smooth freight transportation process and safe delivery of goods, shippers are inclined to find stable freight transportation resources. On the supply side, truckers are more willing to cooperate with shippers who have stable transportation demands so that they can earn steady income. However, a large portion of the shipments are arranged on an ad hoc and on-demand basis.
- ***Lack of control over the transportation resources provided by external truckers:*** Traditionally, shippers rely on internal dispatchers and external middlemen to manage the transportation resources provided by external truckers. The services provided by such internal dispatchers and external middlemen generally lack uniformity and consistency, which made it more challenging for shippers to have direct supervision and management of the actual truckers who are responsible for the shipments.
- ***Lack of protection for truckers:*** According to CIC, in 2021, approximately 80% of truckers in the road freight transportation industry in China were self-employed, who often lack bargaining power when negotiating transportation fees and payment terms. In addition, due to the oversupply of truckers and the intensive competition in China’s FTL market, truckers are often plagued by unstable workload and undesirable income level.

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Transformation of China’s FTL market with the emergence of digital freight platforms

With the increasingly wide-spread accessibilities to mobile phones among market players, favorable government policies that encourage the digitalization of the FTL market, and the rise of GPS, IoT, and other emerging technologies, a new business model for China’s FTL market, in the form of digital freight platforms, gradually emerged in the 2010s. The following diagram illustrates changes to China’s FTL market with the emergence of digital freight platforms.

The paradigm shift of the value chain of China’s FTL market before and after the emergence of digital freight platforms



Note: *Agents refer to the parties who are not directly engaged in the transportation process and often take the role of issuing VAT invoices to third-party logistics companies

Source: CIC

Under such new business model, digital freight platforms play an indispensable role in connecting shippers with truckers. Such platforms usually enter into transportation contracts with the shippers as carriers and then engage truckers to carry out the actual transportation. Shippers may select truckers to fulfill their shipping orders on digital freight platforms; alternatively, digital freight platforms may select truckers for the shipping orders. Our Industry Consultant, CIC, is of the view that both practices for the selection of truckers are common in the digital freight industry. After completion of delivery, truckers receive transportation fee payment while the platforms take on responsibilities for issuing valid VAT invoices to the shippers, facilitating the consistency between the flow of transactions, funds and the tax invoicing process. The following characteristics have been helping digital freight platforms to effectively address the aforementioned challenges:

- **More efficient and transparent value chain:** Digital freight platforms effectively shorten the value chain, eliminate costs generated from middlemen and minimize potential negotiation cost, thus improving the overall efficiency of the transportation process. By leveraging technologies such as mobile internet and GPS, digital freight platforms enable shippers to better monitor the transportation process and to track the entire shipment in real-time.

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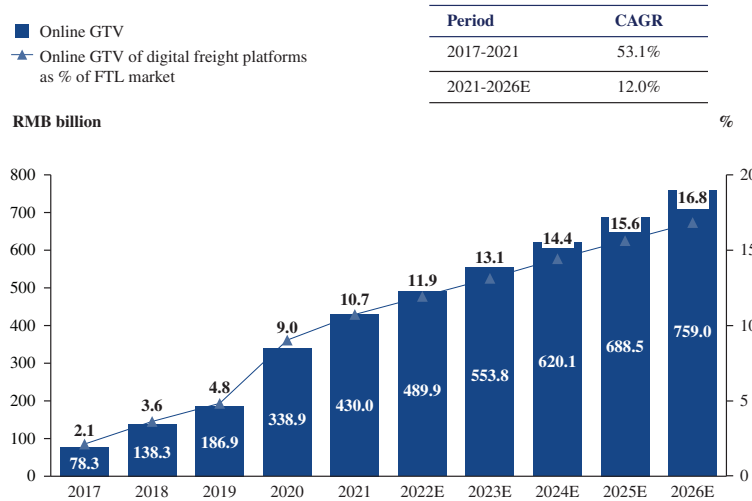
- ***Refined management of external truckers:*** Before the start of shipping services, a complete set of data on shippers, truckers and cargos are uploaded onto the digital freight platforms, enabling shippers to obtain key information on truckers and gain in-depth knowledge of the entire transportation process. Such process further enables shippers to accumulate, integrate and analyze information on truckers from their past transportation activities, so that shippers can more efficiently coordinate truckers with suitable shipping assignments, and consequently realize more refined management of their freight transportation resources.
- ***Better protection for the interests of truckers:*** Digital freight platforms realize the exchange of freight and trucking information between shippers and truckers, which empower truckers by providing them with a steady supply of freight tasks to generate a relatively stable stream of income. In addition, digital freight platforms enable the digitalization of the payment and order confirmation process, which provide truckers with better protection on receiving timely payments for their transportation services.
- ***Assistance to enhance tax supervision:*** Digital freight platforms provide accurate tracking of the flow of services and payments in the transportation process so as to create more transparency during the transportation process and therefore serve as an assistance to the supervision on tax compliance of the transportation process by relevant authorities.

Digital freight platforms help logistics companies claim their entitled VAT deduction, enhance their tax compliance status, and increase the amount of tax revenue collected by the local governments. However, by dealing with truckers directly in place of the logistics companies, digital freight platforms themselves also face the practical difficulties in claiming their entitled VAT deduction based on the transportation fee they pay to truckers, which results in unreasonably high VAT obligations for digital freight platforms. To address this issue and in light of the contribution of digital freight platforms to the local economy, local governments generally have strong incentives to provide government grants to digital freight platforms. According to CIC, it has become an industry norm for companies in the digital freight industry to receive significant amounts of government grants related to their digital freight business. In 2021, the proportion of government grants as to total Online GTV of the ten largest digital freight platforms in terms of Online GTV in 2021 was around 4-5%. See “Financial Information—Government Grants.”

The market size of digital freight platforms in China, in terms of Online GTV, was RMB430.0 billion in 2021, representing a penetration rate of 10.7% in the FTL market. With its abovementioned advantages, digital freight platforms are expected to gain greater popularity among shippers. The market size of digital freight platforms is expected to continue expanding to RMB759.0 billion in 2026, representing a CAGR of 12.0% from 2021 and a penetration rate of 16.8% in the FTL market.

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Market size of digital freight platforms, in terms of Online GTV, 2017-2026E



Source: CIC

In 2018, 2019, 2020 and 2021, the total market size of digital freight market in terms of Online GTV was RMB138.3 billion, RMB186.9 billion, RMB338.9 billion and RMB430.0 billion, respectively, representing a CAGR of approximately 46% from 2018 to 2021, according to CIC. As a result of the rapid expansion of the digital freight market, we were able to take advantage of our brand power within the industry and our strength in technology to seize substantial business opportunities and significantly grow our business scale. In 2018, 2019, 2020 and 2021, we recorded Online GTV of RMB17.7 billion, RMB23.4 billion, RMB27.9 billion and RMB38.0 billion, respectively, representing a CAGR of approximately 29% from 2018 to 2021; during the same period, we recorded revenue of RMB2.0 billion, RMB3.6 billion, RMB4.7 billion and RMB6.3 billion, respectively, representing a CAGR of approximately 46.7% from 2018 to 2021. Our growth rate in terms of Online GTV from 2018 to 2021 was lower than that of the overall digital freight market during the same period, mainly because a large number of new entrants entered the digital freight market during such period due to favorable market conditions and government policies such as the Interim Measures of Digital Freight Transportation, and such new entrants generally experienced rapid growth when they initially entered the market.

The shipping orders for digital freight services cover a broad range of industry sectors. During the Track Record Period, the top industry sectors of our shipping orders, in terms of Online GTV, were (i) equipment and accessories; (ii) coal; (iii) chemical products; and (iv) grain, each of which accounted for approximately 10% to 20% of our total Online GTV during the Track Record Period. According to CIC, such industry sectors are generally necessities for households or manufacturers, and even in a downturn of the economy, the demand for such goods are not expected to decrease as much as that for consumer discretionary products. As a result, the demand for transportation of goods in such sectors are expected to stay relatively stable, and the risks associated with the top industry sectors of our shipping orders are low.

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Drivers of China’s digital freight market

The digital freight market in China is expected to be driven by the following factors in the near future:

- ***Steady economic growth:*** According to National Bureau of Statistics of China, China’s economy has shown a greater trend of recovery from the COVID-19 outbreak in comparison to other major economies, with a year-on-year GDP growth rate of 2.3% in 2020. Such resilience in economy has generated a strong demand of transportation of raw materials, semi-finished products and finished products, which, together with the ever-growing purchasing power and consumption upgrade of Chinese consumers, further boost the growth of the FTL market and digital freight market in China.
- ***Continued investment in infrastructure and extension of the road network:*** By the end of 2021, China had 5.2 million kilometers of roads and 170.0 thousand kilometers of highways nationwide. With increased investments into infrastructure, the overall lengths of road and highway networks are expected to be further extended to 5.5 million kilometers and 215.3 thousand kilometers by 2026, respectively. Furthermore, the construction of roads and improvement of road transportation conditions continued to develop in rural areas in China, with the support of relevant government policies. Such developments are expected to facilitate the delivery of shipments across China, contributing to further development of the road freight transportation and digital freight markets in China.
- ***Favorable policies continue to support the development of digital freight platforms:*** Given that digital freight platforms are able to strengthen the compliance of the road freight transportation, since 2015, the PRC government has promulgated the following regulations to promote the development of digital freight platforms.

<u>Time</u>	<u>Regulation</u>	<u>Influence/Impact</u>
January 2020	<i>Notice of the Ministry of Transport and the State Taxation Administration on issuing interim measures for the operation and administration of road freight transport based on Internet platforms</i>	Pursuant to such <i>Notice</i> , the NVOCCs (Non-Vessel-Operating Common Carriers) were to be officially transformed into digital freight platforms. Such <i>Notice</i> includes provisions that further strengthen the supervision of the digital freight industry and standardize the operations of digital freight platforms. Meanwhile, such <i>Notice</i> also institutes requirements for telecommunications businesses to acquire relevant operating license and meet the requirements of information protections from the national security perspective.

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<u>Time</u>	<u>Regulation</u>	<u>Influence/Impact</u>
May 2016	<i>Notice of the Ministry of Finance and the State Administration of Taxation on implementing the pilot program for replacing the business tax with a value-added tax in an all-round manner</i>	Such <i>Notice</i> stipulated that NVOCC is subject to VAT in accordance with transportation services, which permits NVOCC to engage in freight transport services as well as the issuance of invoices at a 11% rate.
September 2015	<i>Opinions on promoting and accelerating the innovation, development, transformation and upgrading of commercial circulation both online and offline</i>	Such <i>Opinions</i> explicitly proposed for the transformation of the development model of the logistics industry, especially encouraging the development of a light-asset model and NVOCC on the basis of Internet platforms.

- ***Increasing digitalized transformation on shippers’ side:*** In 2021, China’s IT spending accounted for 3.3% of its GDP, lower than the global average of 5.0%. However, such percentage is expected to grow to approximately 4.0% by 2026, indicating a continuing trend towards digitalization of the China’s economy, and the rapidly growing technological capabilities of Chinese enterprises. With such enhanced technological capabilities, shippers in China are expected to have a growing demand for enhanced comprehensive shipping solutions with premium value-added services, to address their needs for higher operational efficiency of their transportation process and more refined management for transportation resources.

Future trends in China’s digital freight market

We believe that the future development of China’s digital freight market will be characterized by the following trends, according to CIC:

- ***Steady increase in the adoption of mobile internet among truckers:*** China has entered the era of the Internet economy, as its user base for mobile phones is expected to grow from 1,022.9 million in 2021 to 1,183.8 million in 2026. The widespread adoption of mobile internet has also been extended to truckers since 2014. The use of mobile internet allows truckers to take freight orders more efficiently. In the future, mobile internet is expected to provide a more diversified portfolio of functions, such as online access to aftermarket services, to empower truckers.
- ***Increasing demand for transportation resources management:*** Given the increasingly intense competition in the FTL market, logistics companies are urgently seeking to improve their transportation service quality to further attract and retain clients. Therefore, logistics companies are increasingly demanding for platforms that facilitate them to conduct refined management of their in-house or external

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transportation resources. Digital freight platforms will continue playing an important role in integrating and accumulating transportation resources, thus empowering shippers, including logistics companies, to better manage their high-quality transportation resources of external truckers.

- ***Paired stable supply and stable demands in transportation resources:*** Digital freight platforms allow shippers to have better access to stable and abundant freight transportation resources, and facilitate the coordination with trucks and cargos. In the meanwhile, digital freight platforms allow truckers to directly contact upstream shippers who have stable transportation demands, and thus laying the foundation for establishing long-term partnerships.
- ***Greater Matthew Effect:*** With the evolvement of relevant regulatory policies, the digital freight platforms are expected to improve their data governance and compliance accordingly. As such trends evolve, more shippers are likely to opt for the larger-scale digital freight platforms with better compliance, digitalization capabilities and transportation resources, thereby driving out non-compliant platforms and further improving market concentration.

Competitive landscape of the digital freight market

In 2021, the top five platforms within the digital freight market in China accounted for a total of 36.0% market share, in terms of total Online GTV. We were the second largest digital freight platform in China in terms of our Online GTV in 2021, according to CIC. The table below set forth the top five platforms within the digital freight market in China, in terms of Online GTV in 2021.

<u>Company</u>	<u>Listing status</u>	<u>Description</u>	<u>Online GTV in 2021</u>	<u>Market share</u>
			<i>RMB billion</i>	<i>%</i>
Company B	Yes	A road freight truck and information matching platform, focusing on providing freight information matching, truck after-sales value-added services and other services. Company B was established in 2014 and headquartered in Nanjing. It was listed on the New York Stock Exchange in 2021.	42.0	9.8
Our Group	No	See “Business” for more details.	38.0	8.8

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Company	Listing status	Description	Online GTV in 2021 <i>RMB billion</i>	Market share <i>%</i>
Company A	No	An IoT (Internet of Things) technology company in China’s road freight transportation market focusing on providing services such as digital freight, on-board GPS services, and digital cargo compartments. Company A was established in 2010 and headquartered in Beijing.	30.0	7.0
Company D	No	An integrated logistics service provider in China, focusing on providing digital freight, multimodal transportation and other services for bulk freight transportation industries. Company D was established in 2018 and headquartered in Shanghai.	23.0	5.3
Company C	No	A China’s integrated logistics service provider focusing on providing services such as digital freight transportation, multimodal transportation and international logistics services. Company C was established in 2014 and headquartered in Nanjing.	22.0	5.1
Subtotal			<u>155.0</u>	<u>36.0</u>

Source: CIC

Key success factors in the digital freight market

According to CIC, digital freight platforms in China will need to obtain the following capabilities in order to remain competitive in the market:

- Advanced technological capabilities:** Access to advanced technologies is critical for digital freight platforms. In order to meet the requirements specified in *the Guidelines for Road Freight Transport Services Based on Internet Platforms* (《網絡平台道路貨物運輸經營服務指南》) enacted by the Ministry of Transport, digital freight platforms need to harness advanced technological capabilities to realize, maintain and optimize the required functions. Meanwhile, digital freight services are to be conducted online throughout the entire process, from contract signing to

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payment of shipping fee, which will in turn accumulate and integrate a large amount of freight data onto the platform, making it crucial for digital freight platforms to possess strong risk control capabilities in order to ensure data security.

- ***Extensive industry know-how and operational experience:*** An experienced management and employees team is critical for the development of a digital freight platform. Experienced and professional management with deep understanding of the industry can spearhead the digital freight platform to provide top notch products and services, that increase customer stickiness. The customized services, innovative products, support and guidance provided by offline sales and operation personnel regarding the deployment and operation of the system are especially important when the demands of shippers vary based on their own business needs. When using the platform, shippers often encounter different problems that need to be solved timely. Platforms with experienced research and development staff are capable to leverage their experience to deliver values to customers. A well-trained service team and timely responses will naturally earn users’ loyalty.
- ***First-mover advantages and brand effects:*** To ensure compliances, shippers tend to choose platforms with a good reputation and abundant resources in the industry. The cooperation developed between the platform and the shippers, and the digital asset accumulated during the process of such collaboration, may further lead to customer loyalty, since the shippers would face additional transition costs to switch to another platform. Furthermore, such loyalty can be further enhanced by platforms with resources, in particular transportation resources. Therefore, first-mover advantages, brand effects and abundant resources can create a competitive advantage for digital freight platforms and assist them in further maintaining their competitiveness in the industry.
- ***Abundant freight transportation resources:*** In order to fulfill shippers’ transportation demands, the digital freight platform that is able to retain and accumulate a large number of high-quality freight transportation resources could gain critical competitive advantages in the industry.

OVERVIEW OF THE MARKET FOR COMMUNITIES FOR TRUCKERS

Truckers are one of the most important participants in the road freight transportation ecosystem. According to CIC, around 37.9 million truckers are engaged in the provision of road freight transportation services in China as of December 31, 2021. Truckers are predominantly male rural residents with relatively limited educational background, who generally face the following challenges in their work and daily lives:

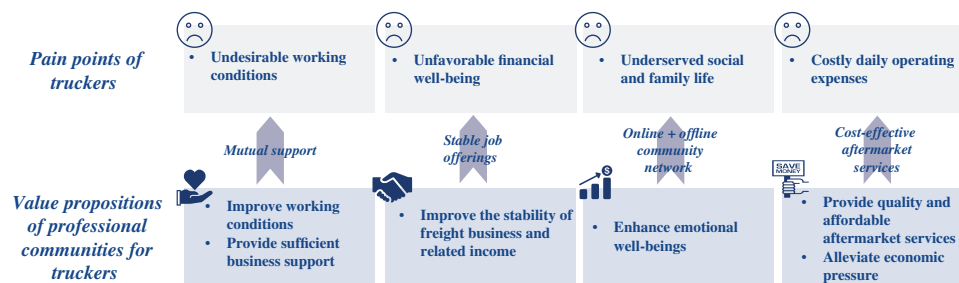
- ***Undesirable working conditions:*** Compared with other occupational groups, truckers generally face high risks of occupational diseases and accidents, due to their long working hours and the intensive nature of their work assignments; however, such high risks are often not sufficiently covered by social insurance and

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commercial insurance. Moreover, the inherent risks in the road freight transportation industry, such as truck breakdowns and road accidents, expose truckers to greater challenges, which usually cannot be sufficiently addressed due to the lack of high-quality aftermarket services, such as maintenance services, at reasonable prices.

- **Unfavorable financial well-being:** According to CIC, most truckers are self-employed workers who support multi-child families with their income. However, low-income level, unstable job opportunities, and high operating expenses in areas such as truck maintenance, often impose great financial pressures on truckers.
- **Underserved social and family life:** According to CIC, the daily work for truckers normally involves travelling for more than 8 hours alone on the road, which leave truckers with limited time with families and friends. Such lack of social connectedness make truckers prone to an overwhelming sense of loneliness.

To address such challenges, communities for truckers have been established, in the form of online and offline community network centered on truckers, to improve the working conditions, alleviate the economic pressures and enhance the mental well-being for truckers. These communities for truckers provide a platform for truckers to communicate and foster friendships among each other, through online services such as online forums and experience sharing, which help truckers meet more fellow practitioners in the road freight transportation industry, build new social bonds, and relieve their sense of loneliness. At the same time, the establishment of online platforms also facilitates mutual support among truckers, as based on the relationships created online, truckers can spontaneously establish small communities for offline mutual support to provide timely emergency assistance to fellow truckers who get in unexpected accidents. Furthermore, the communities for truckers provide truckers with better access to aftermarket services, where truckers can purchase related services at a concessionary rate.



Source: CIC

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Competitive landscape of the market of communities for truckers

Trucker Community, the community for truckers established by us, is the first and largest community in the logistics industry in China, and the largest community for truckers in China according to CIC. The table below set forth the top communities in terms of registered users in the logistics industry in China as of December 31, 2020 and 2021, respectively.

Company	Listing status	Description	Time of establishment of the relevant community <i>year</i>	Number of registered users as of December 31, 2021 <i>million</i>	Market share <i>%</i>	Number of registered users as of December 31, 2020 <i>million</i>	Market share <i>%</i>
Our Company	No	See “Business” for more details.	2014	2.7	7.1	>2.2	>6.3
Company E	No	A comprehensive (Internet of Vehicles) solution provider in China, focusing on truckers’ community services on a digital freight platform. Company E was established in 2015 and headquartered in Beijing.	2015	<2.3	<6.1	<1.8	<5.1
Company F	No	A truck service platform provider in China that offers a truck navigation system and aftermarket services. Company F was established in 2020 and headquartered in Shenzhen.	2020	<1.2	<3.2	<0.9	<2.6
Company G	No	A charity foundation funded private company in China focusing on fields including chemicals, logistics, and truckers’ community services. Company G was established in 2017 and headquartered in Hangzhou.	2017	<0.2	<0.5	<0.1	<0.3

Note: The market share is calculated by dividing the number of registered users by the total number of truckers in the road freight transportation industry in China. To collect information needed for ranking, CIC obtained the market players’ background information from their official websites, financial reports, and expert interviews. As there is no publicly available data on the ranking or financial/ operating data of China’s communities for truckers market, CIC’s research methodology for the top four market players, and their financial/operating data, were based on the collection of market intelligence from private channels instead of public sources. Its research methodology on the top market players is as follows: (i) examining the proprietary expert network and selecting the expert candidates based on the working experience and expertise of the experts; (ii) compiling and sending questionnaire to the expert candidates as preliminary communication so as to ascertain whether the expert candidates would provide the requested market information; (iii) conducting interviews with experts who are capable of providing the useful market information.

Source: CIC

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Future trends for the communities for truckers

We believe that the future development of communities for truckers will be characterized by the following trends, according to CIC:

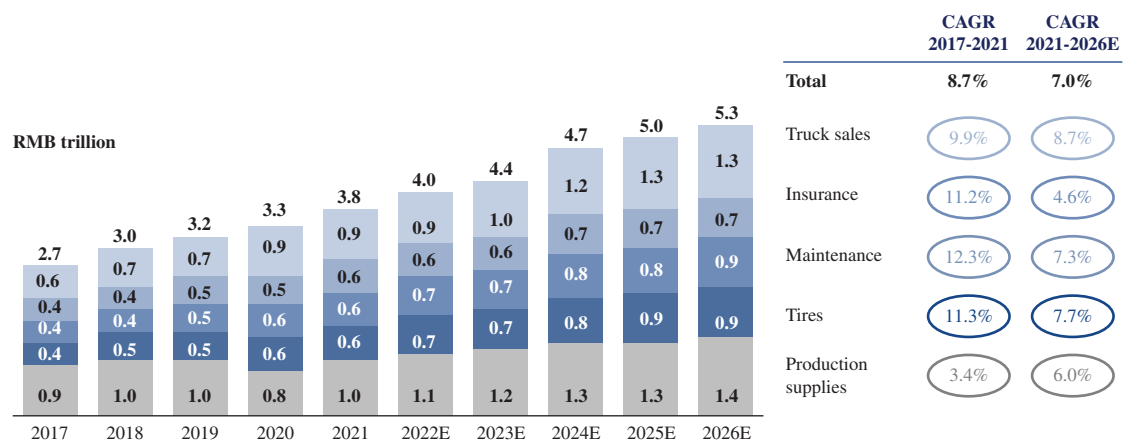
- ***Leveraging on Economies of Scale***: The successful operation of a community for truckers primarily hinges on acquiring a sufficiently large base of truckers, which enables such community to offer its functions and services smoothly and effectively due to economy of scale. Moreover, as communities with a large-scale and loyal base of truckers are likely to be more active in terms of online communication activities and more efficient in offline mutual support, such success in operations in turn serves to effectively attract additional truckers. The communities with a considerable amount of transportation resources are expected to expand their lead which result in “Matthew Effect”. The successful community with a considerable amount of truckers strengthens the cooperative network between truckers, shippers and other participants in the transportation ecosystem, which can deliver values such as providing transportation resources to digital freight platforms.
- ***Extensive network for offline mutual support***: Truckers engaged in long-distance transportation assignments often encounter unexpected events in unfamiliar areas. Such truckers often face substantial difficulties in locating local supporting facilities and maintenance resources in a timely manner, which might further deteriorate due to truckers’ economic concerns. Such challenges could be resolved by organizing effective offline mutual support network facilitated by communities for truckers, which may in return enhance the loyalty of truckers, expand the network for offline mutual support, and further enhance the effectiveness of offline mutual support functions.
- ***Monetization through truck sales and aftermarket services***: The commercial potential of community for truckers is expected to be realized through the market for truck sales and aftermarket services, as the large number of truckers on such communities are potential buyers of new and second-handed trucks and truck supply products, and such communities can realize monetization through selling trucks and truck supply products to such truckers. As a community for truckers attracts and accumulates more and more truckers, a larger number of truck sellers and aftermarket service providers are expected to join the community, providing truckers with affordable trucks and aftermarket services.

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OVERVIEW OF THE MARKET FOR TRUCK SALES AND AFTERMARKET SERVICES IN CHINA

The market for truck sales and aftermarket services covers the broad portfolio of services spanning across the entire life-cycle of trucks, ranging from the trading of new and second-hand trucks to the provision of insurance and maintenance services, among others. The overall size of the market for truck sales and aftermarket services in China increased from RMB2.7 trillion in 2017 to RMB3.8 trillion in 2021, and is expected to reach RMB5.3 trillion in 2026. In particular, the size of truck sales market in China increased from RMB604.0 billion in 2017 (including RMB535.6 billion for new trucks and RMB68.4 billion for second-handed trucks) to RMB881.6 billion in 2021 (including RMB762.4 billion for new trucks and RMB119.1 billion for second-handed trucks), and is expected to reach RMB1,340.7 billion in 2026 (including RMB1,118.7 billion for new trucks and RMB222.0 billion for second-handed trucks). The demand for new and second-handed trucks depends on the demand for road freight transportation, which further hinges on the production, selling and operating activities of enterprises that deliver their products through road freight transportation, and generally increases along with the growth of economy.

Market size of truck sales and aftermarket services, in terms of GTV, 2017-2026E



Note: The GTV of production supplies include the GTV of fuel consumption, toll fees and urea consumption.

Source: CIC

The truck sales market is highly fragmented, covered by approximately 30,000 to 40,000 regional distributors of new and second-handed trucks as of December 31, 2022, which further sell trucks to truckers or sub-distributors in local regions. The total market share of the five largest truck distributors in China accounted for less than 5% of the total truck sales market in 2022, in terms of revenue in 2022. The size of truck distributors are often limited by the large amount of funding required to procure trucks from suppliers. The truck maintenance market is also highly fragmented, with approximately 900,000 truck maintenance service providers in China as of June 30, 2022. The size of truck maintenance service providers are often limited by truckers’ low level of loyalty to the services provided by such truck

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maintenance service providers. The competition among truck distributors and the competition among truck maintenance service providers both hinge on a few factors, including the geographic coverage of their sales network, their business relationship with suppliers which affects their procurement price, and their relationship with truckers, especially leaders of truck fleets, which affects their sales of trucks or services. Our Truck Plus solutions are able to capture growth potential of the market, primarily attributable to our brand name among truckers and suppliers, as well as the large number of truckers accumulated on our Trucker Community platform.

In spite of its large market size, the market for truck sales and aftermarket services still faces significant challenges, mostly characterized by the lack of requisite levels of standardization and quality assurance. Traditional truck sellers and aftermarket service providers generally operate at a relatively small scale, and thus are unable to provide products and services of premium quality at reasonable price. In addition, truckers are obligated to meet relevant requirements on truck emissions imposed by relevant environmental laws and regulations in China, so they have to ensure that the truck or truck supply products they purchase meet relevant environmental requirements. Consequently, truckers usually find it difficult to access reliable truck sellers and aftermarket service providers, especially when traveling in relatively remote areas.

Over the past decade, platform-based truck sales and aftermarket solutions gradually emerged, which reshaped the market by better connecting truckers with truck sellers and aftermarket services providers. With the economy of scale of such platforms, truckers are able to gain easier access to high-quality truck sales and aftermarket services at a reasonable price. According to CIC, the market for platform-based truck sales and aftermarket solutions is expected to continue expanding, transforming towards a more concentrated competitive landscape in the near future as the major players continue improving their operational efficiencies.

SOURCE OF INFORMATION

We commissioned CIC, an independent market research and consulting firm, to conduct a detailed research and analysis of China’s road freight transportation market. CIC, founded in Hong Kong, provides professional services including, among others, industry consulting, commercial due diligence and strategic consulting. We have agreed to pay a fee of US\$100,000 to CIC in connection with the preparation of the CIC Report. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the CIC Report. We have extracted certain information from the CIC Report in this section, as well as in the sections headed “Summary”, “Risk Factors”, “Business”, “Financial Information” and elsewhere in this document to provide our [REDACTED] with a more comprehensive presentation of the industry in which we operate.

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During the preparation of the CIC Report, CIC performed both primary and secondary research, and obtained knowledge, statistics, information on and industry insights into China’s integrated supply chain logistics services market. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources. The CIC Report was compiled based on the following assumptions: (1) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (2) relevant key drivers are likely to drive the continued growth of China’s road freight transportation market throughout the forecast period; and (3) there is no extreme force majeure or unforeseen industry regulations in which the industry may be affected in either a dramatic or fundamental way. All forecasts in relation to market size are based on the general economic conditions as of the Latest Practicable Date, which would be adjusted if the COVID-19 outbreak persists or escalates and has an unpredicted negative impact on the general economy.