OVERVIEW

We are an electric two-wheeled vehicle provider in mainland China, focusing on the design, research and development, manufacturing and selling of electric two-wheeled vehicles. According to Frost & Sullivan, we were the fifth largest manufacturer of electric two-wheeled vehicles in mainland China in terms of total revenue in 2022, with a market share of 4.2%.

We have built an offline sales and distribution network and embraced informatization and established online retail channels, continuously improving the penetration and coverage of our products. As of April 30, 2023, we had over 1,300 distributors covering over 11,400 point-of-sales in mainland China. Our *Luyuan* brand is a well-known brand in the industry, and we participated in developing industrial standards. With our great emphasis on product quality, we continue to expand the breadth and depth of cooperation with distributors, suppliers and commercial customers, seizing the opportunities of standardized and large-scale development of the industry brought by the implementation of the New National Standards and the booming shared mobility industry.

Our headquarters is located in Jinhua, Zhejiang Province and comprises our principal office buildings, our product research and development center and our Zhejiang production plant. Apart from our Zhejiang Plant, we have two other production plants located in Shandong and Guangxi. As of December 31, 2022, our annual production capacity of electric two-wheeled vehicles was approximately 3.3 million units. Through our continuous investment in upgrading our production equipment, we strive to bring products with controllable product quality to consumers to further improve our brand image, while maintaining our scale advantage.

We attach great importance to upgrading our products and developing relevant technologies. Our core technologies cover key components of electric two-wheeled vehicles such as motors, controllers, batteries and chargers. Technological development and progress have significantly improved the service life and safety level of our electric two-wheeled vehicles. In May 2022, we extended the warranty period for certain parts and components of our vehicles, including the liquid-cooled motors, highly crafted vehicle frames and front forks and rear flat forks, to ten years. In terms of technological research and development, we focused on areas with strong growth potential such as lithium-ion battery safety and electric two-wheeled vehicles with smart functions. As of the Latest Practicable Date, we held a total of 437 patents in mainland China, of which 46 were invention patents, 251 were utility model patents and 140 were design patents.

During the Track Record Period, we achieved strong growth. Our revenue increased from RMB2,378.3 million in 2020 to RMB4,783.0 million in 2022, representing a CAGR of 41.8%. Our revenue increased by 42.1% from RMB1,162.0 million for the four months ended April 30, 2022 to RMB1,651.4 million for the same period in 2023. However, given the increasing competition and slower growth in the electric two-wheeled vehicles industry, we may not be successful in maintaining the high historical growth of our business. For a relevant risk factor, see "Risk Factors – Risks Relating to Our Business and Industry – We may not be successful in maintaining the growth and profitability of our business".

STRENGTHS

We are a well-known electric two-wheeled vehicle brand that has continuously contributed to industry development.

Our *Luyuan* brand has over 20 years of history in the electric two-wheeled vehicle industry in mainland China. Since our inception, we have been committed to promote the development of the industry and has made remarkable contributions to the development of the electric two-wheeled vehicle industry in mainland China, including:

(i) in 2004, we introduced EABS electromagnetic braking system, high-efficiency energy recycling technology and positive and negative ampere meter technology, which essentially equips electric two-wheeled vehicles with unique technologies;

(ii) in 2005, we introduced magnetic code anti-theft motor lock technology to enhance the vehicles' anti-theft performance and alleviating one of the major obstacles to potential users' consumption;

(iii) in 2008, we led the industry in introducing over 30 welding robots to the production process of electric two-wheeled vehicles, which significantly improved the quality of vehicle frame welding;

(iv) in 2013, we successfully applied dynamic Internet of vehicles (動態車聯網) technology into practice. In the same year, the fifth generation of our charging technology made progress in addressing the decline of battery life caused by charging problems, which significantly increased driving range and battery life;

(v) in 2015, we introduced core child safety technologies, such as child lock activation and socket protection, which gradually became industry standard;

(vi) since 2017, we launched three major systems with smart functions regarding safety, battery life and anti-theft systems. In this process, we have achieved comprehensive upgrade and iteration of our electric two-wheeled vehicles. Our liquid-cooled motor and ceramic brakes also demonstrate our dedication in research and development. For details of these two technologies, see "– We continuously invest in research and development capabilities in core technologies" below; and

(vii) in 2018, we were one of the only two manufacturers among the main drafting parties of the New National Standards. The New National Standards have significantly improved standardization of electric bicycles and put forward higher requirements on product safety. In addition, the New National Standards significantly accelerated the consolidation process of mainland China's electric two-wheeled vehicle industry. While at its peak, mainland China had around 2,000 electric two-wheeled vehicle manufacturers, the number fell to only around 100 as of 2021 that could meet the requirements of the New National Standards and are qualified to manufacture electric motorcycles and electric mopeds. In this context, the electric two-wheeled vehicle industry has entered the stage of industry consolidation, and manufactures with robust technological strength and production capacity are expected to enjoy a competitive advantage.

We have formed our unique brand image and core competitiveness by always focusing on our *Luyuan* brand and devoting efforts to produce safe, reliable and hassle-free electric two-wheeled vehicles for our customers. Over the years, *Luyuan* has become a well-known brand in mainland China's electric two-wheeled vehicles market, with high visibility, reputation and customer loyalty. We were awarded five-star authentication under the National Standard for Consumer Product Customer Service Evaluation (《商品服務售後評價體系》) GB/T27922-2011 by the Evaluation of Compliance Certification Review Committee for National Commodity After-sales Service (全國商品售後服務評價達標認證評審委員會) and Beijing Sky Certification Center (北京五洲天宇認證中心) and were also awarded five-star brand under the National Standard for Evaluation of Business Enterprise Brand and Guide of Enterprise Culture Construction (《商業企業品牌評價與企業文化建設指南》) GB/T27925-2011 by Beijing Sky Certification Center (北京五洲天宇認證中心). We have been recognized by China National Light Industry Council (中國輕工業聯合會) as Top 10 Enterprises of China's Electric Bicycle Industry (中國電動自行車行業十強企業). We have also been awarded Well-known Trademark in China (中國馳名商標) and Famous Brand Product of Zhejiang Province (浙江名牌產品). We believe these recognitions fully demonstrate our position in the industry.

As carbon-neutral strategies and green mobility policies continue to be implemented worldwide, the phase-out of traditional motorcycles will accelerate and demand for electric two-wheeled vehicles will continue to grow. In particular, there is great development space for premium electric two-wheeled vehicle products (with manufacturer suggested retail price of over RMB3,500). According to Frost & Sullivan, the premium segment of the electric two-wheeled vehicles market is expected to be more popular among consumers and thus gain stronger growth momentum with a CAGR of 27.6% from 1.7 million units in 2023 to 4.5 million units in 2027. In addition, affected by the COVID-19 pandemic, more consumers choose electric two-wheeled vehicles over public transportation for commuting. The development of the on-demand delivery market led by China and ASEAN countries will also stimulate the demand for electric two-wheeled vehicles. Under this background, we will further leverage our advantages to achieve rapid and sustainable growth.

We continuously invest in research and development capabilities in core technologies.

We have been committed to producing high-quality and durable electric two-wheeled vehicles with enhanced performance through research and development. We continue to invest in the core technologies and applications of electric two-wheeled vehicles to improve our research and development capabilities and market competitiveness. As of the Latest Practicable Date, we held a total of 437 patents in mainland China, of which 46 were invention patents, 251 were utility model patents and 140 were design patents.

We are recognized as a National High-tech Enterprise (國家級高新技術企業). We have also been named Provincial-level Enterprise Research Institute (省級企業研究院) and Provincial-level Enterprise Technology Center (省級企業技術中心) by relevant government departments. We believe that the following projects demonstrate our research and development capabilities:

- *Liquid-cooled motor technology* – Our in-house developed liquid-cooled motor technology is currently the only technology related to electric two-wheeled vehicle motors that has been awarded the Science and Technology Progress Award (科學技術進步獎) issued by China National Light Industry Council (中國輕工業聯合會). By using an insulating coolant that reduces the motor operating temperature, this technology increases the motor's working efficiency to over 90%, and thus achieves long driving range for our products and significantly improves the service life of our vehicles and the batteries. We also provide a ten-year warranty for our liquid-cooled motors, while the industry average for motors is approximately three years. As of the Latest Practicable Date, we have been granted 30 patents concerning our liquid-cooled motor technology.

- *Safe braking system* – We use ceramic brake pads on electric two-wheeled vehicles. With brake pads made of ceramic materials, ceramic brakes help increase vehicle safety as they are able to reduce breaking distance due to higher value of friction coefficient compared to traditional brakes and have more stable performance under high temperature. In 2021, we further enhanced our safety braking system by launching the flexible anti-skid brake, to shorten braking distance, prevent wheels from locking, and thereby improve braking safety. Compared with mainstream metal brake pads, our ceramic braking system can shorten braking distance by approximately 30%, and has lower noises, stronger resistance to high temperature and corrosion, while extending comprehensive service life by approximately 500%.

- *Graphene range-extension steel cord tires* – Graphene range-extension steel cord tires have been extensively applied to our products. By adding a layer of steel cord anti-puncture net on the ply of a vacuum tire, steel cord tires offer increased puncture resistance. With graphene added into steel cord tires as well as tire crowns made of high-quality rubber, the wear resistance and stability of steel cord tires can be further improved. For our premium vehicle models, we use aramid anti-puncture tires which offer stronger resistance against external impact. In terms of wear resistance, flex resistance and shock resistance, aramid anti-puncture tires can better cope with various harsh conditions, including deformations, heavy loads and high and low temperatures, as compared to ordinary tires.

In the journey of building a higher level of safe, reliable, and hassle-free electric two-wheeled vehicle products, we plan to continue investing in extending our technical capabilities and optimizing product performance.

We emphasize product development capabilities and make durable products with both fashion and performance.

We have strong product development capabilities based on which we are able to offer consumers a wide range of vehicle models including, among others, simple, classic, sports and luxury models, with different functions suitable for different consumer groups. For example, our INNO series, which represents our luxury electric bicycles targets younger and higher-income consumer groups and features elegant exterior lines, a sense of technology and *Luyuan's* core technologies. Our S series electric mopeds which primarily target male consumer groups feature a more muscular design and are also equipped with *Luyuan's* core technologies.

We endeavor to constantly excavate young consumer's desire for fashion and invest substantial resources in product design. To this end, we have a professional product design team and cooperate with well-known industrial design companies which jointly help maintain our fashion edge and popularity amongst consumers in terms of model lines, paint texture and use of colors. As a member of the China Fashion Color Association (中國流行色協會) and the China Color Innovation Center for Electric Two-wheeled Vehicles designated by the association, we jointly release popular colors for electric two-wheeled vehicles in mainland China with the association.

Under the marketing tagline *"Luyuan Liquid-cooled Electric Vehicles, A Ten-Year Ride" (綠源液冷電動車,一部車騎十年)*, we position our products as durable goods with fashion and performance. We apply our liquid-cooled motor and other in-house developed technologies to solve the key issues affecting product life and apply our achievements in braking systems, anti-puncture tires and safe and fast charging technology to our products. We believe, with the application of new technologies such as lithium-ion battery, durability of electric two-wheeled vehicles are expected to further improve. Following such industry trend as part of our strategy, we provide consumers with quality assurance that exceeds the industry level. We provide a six-year warranty period for certain of our vehicles and core parts such as air-cooled controllers and motors, which is the longest in mainland China's electric two-wheeled vehicle market, according to Frost & Sullivan. In addition, since May 2022, we further extended the warranty period of our liquid-cooled motors to ten years. For further details of our warranty policies, see "– Customers and Customer Services – Product Warranties and Recall". We believe our emphasis on the durability of our products will in turn promote the healthy development of the electric two-wheeled vehicle industry. We have officially reached a strategical cooperation with CCIC Western Testing Co., Ltd. (中檢西部檢測有限公司), to jointly formulate standards for durability of electric two-wheeled vehicles.

Our product development capabilities are also reflected in our insight and grasp of the technological development trend of electric two-wheeled vehicles and our launch of premium models with smart features. According to Frost & Sullivan, the premium segment, which covers vehicles with better performance, diversified functions including more advanced features, is expected to be more popular among consumers and thus gain stronger growth momentum with a CAGR of 27.6% from 2023 to 2027. Through various sensors and display output devices, some of our new models increase interaction between users and vehicles and offer NFC unlocking, Bluetooth communication, positioning features, vehicle sharing and other functions including cruise control system, walk-assist and auto-sensing headlights. As of April 30, 2023, we have 16 models with such smart features in production and 10 models in our pipeline. We believe, the launch of these models further diversifies our product portfolio and offers different user experiences than that of homogeneous products and improves user stickiness.

In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, our research and development costs were RMB83.5 million, RMB95.8 million, RMB150.5 million, RMB29.0 million and RMB41.9 million, respectively.

We have built a nationwide offline distribution network and enjoy mature channel management advantages.

We have established a nationwide distribution network covering both offline and online channels. We focus on offline distributors and continuously explore corporate and institutional customers for our offline channels and actively explore popular e-commerce platforms such as Tmall and JD.com for our online channels. Our network of distributors performs not only as sales channels but also provides significant opportunities to provide services to and engage with consumers and enhance our brand awareness. After years of accumulation, we have built an efficient flat domestic distribution channel with deep penetration into districts and counties. As of April 30, 2023, we cooperated with over 1,300 distributors which cover over 11,400 retail outlets across 30 provincial-level administrative regions in mainland China.

Leveraging years of experience in marketing network construction and management, we have established a standardized and process-based management system and an information management system, covering site selection for retail outlets, store decoration, product display, staff training, customer ordering, product delivery, supervision and tracking, etc., which demonstrates our strong marketing network expansion capability. We have also established strict access and performance assessment systems for proposed new distributors and new retail outlets and make prompt adjustments based on operation status of existing stores. Meanwhile, we have established long-term and stable relationships with our distributors through various measures including regular assessment and training. As of April 30, 2023, the average length of our cooperation with our distributors in mainland China was approximately six years, and we had business relationships with our five largest distributors in mainland China for each period of the Track Record Period for an average of approximately ten years. In addition, leveraging the BI system installed in retail outlets, our headquarters have access to distributors' sales data on an hourly basis, with which we are able to make prompt evaluations for distributors' sales results and adjust training plans for distributors. We have also configured the safety system for retail outlets, including smoke detection system and sprinkler system, which are connected with our backend information technology system to monitor fire safety 24-7. Meanwhile, the remote inspection function of our *Luyuan* Sky Eye system installed in our retail outlets is also conducive to improving store safety.

Apart from expanding the distributor network and improving distributor management, we have been gradually expanding our online presence, including establishing flagship stores on Tmall, JD.com and other well-known e-commerce platforms in mainland China. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from online channels was RMB97.6 million, RMB108.8 million, RMB271.7 million, RMB24.3 million and RMB72.0 million, respectively. In recent years, we have also continued to strengthen our brand exposure online through promotion channels including the Internet and TV media. For example, we have placed advertisements on Chinese TV variety shows such as the fourth season of Rock & Roast (《脱口秀大會》), Back to Field (《嚮往的生活》), and Have Fun (《嗨放派》), which are popular among young consumers.

Apart from online and offline retail channels, in order to seize the emerging opportunities including those arising from the significant growth of the on-demand delivery market and the shared mobility market, we also actively focus on developing corporate and institutional customers, including leading shared mobility service providers, on-demand e-commerce companies, logistics companies and government organizations. Leveraging our research and development and customization capabilities, we provide our corporate and institutional customers with fast and high-quality product customization services. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from corporate and institutional clients was RMB554.0 million, RMB421.0 million, RMB96.4 million, RMB17.9 million and RMB94.6 million, respectively.

We enjoy the scale advantage of the layout of our production plants close to our markets and our mature production process which ensures good and stable quality.

As of December 31, 2022, our production capacity of electric two-wheeled vehicles reached approximately 3.3 million units. A larger scale is beneficial for us in maintaining close relationships and bargaining power when dealing with suppliers and distributors while reducing unit production costs in the electric two-wheeled vehicle market. Additionally, along with the expansion of our production capacity, we continue to improve our production processes leading to increases in production efficiency. With the promulgation of the New National Standards and other policies, the electric two-wheeled vehicle industry has entered a stage of industry consolidation. We believe we are well positioned to capture the opportunities from the trend of industry consolidation leveraging our scale advantage which enables us to achieve rapid research and development and mass production while controlling costs.

We have strategically located our production plants according to factors such as regional market conditions and local differences to enhance our responsiveness to market demand, lower transportation costs and increase the competitiveness of our products. We have three production plants, namely, the Zhejiang Plant, Shandong Plant and Guangxi Plant. Our production plants are equipped with complete production and manufacturing systems, which allow us to carry out independent research and development and manufacturing of a wide range of key components including the motor, frame and vehicle surface. Our production plants have complete vehicle assembly lines to produce and manufacture a variety of models with low failure rate and high stability.

We always take the production and sales of safe, reliable and hassle-free electric two-wheeled vehicles as our foundation, strive for excellence in the production process and ensure high-quality product output through production informatization. We have formed a highly flexible, personalized and networked supply chain using a comprehensive set of digital systems, including our MES system, at our production plants which facilitates data analysis through monitoring the entire production process and collecting data thereof. Such systems help enhance the level of visualization and transparency of our production process, achieve information interconnectivity of vehicle assembly and improves management efficiency and decision making. We also use unmanned transport systems and welding robots, which can significantly improve production efficiency and lower unit production costs. Our Zhejiang Plant has over 20 welding robot workstations, a series of advanced metal processing equipment, such as unmanned pipe bending machines, automatic feeding and cutting machines, arc punching machines, and automatic flat ironing machines, and fully automated electro-coating line. Our Guangxi Plant has a smart command center, which realizes unmanned operation of pipe processing, welding, painting, motor production, screw locking and vehicle assembly, forming a highly flexible, personalized and digital production model of products and services. The highly automated production process guarantees the reliability and quality of our products and reduces unit production costs. Our new factory at our Zhejiang Plant, which commenced operation in April 2022, extensively utilizes advanced logistics model designs such as unmanned material handling systems and overhead conveyor systems. The informatization level of our production plants has won many recognitions and awards. In November 2017, our Zhejiang Plant was awarded Zhejiang's Third Batch of Model Enterprises for Big Data Application (浙江省第三批大數據應用示範企業) by the Economy and Information Technology Department of Zhejiang Province. In January 2018, our Zhejiang Plant was awarded Zhejiang's First Batch of Model Enterprises for Cloud Computing Platform Access (浙江省第一批上雲標桿企業) by the Economy and Information Technology Department of Zhejiang Province. In December 2021, our Guangxi Plant was awarded Guangxi's Model Enterprise for Intelligent Factory in 2021 (2021年廣西智慧工廠示範企業) by the Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region. In March 2022, our Zhejiang Plant was awarded Model Project for Transformation of Production Mode in 2022 (2022年度生產製造方式轉型示範項目) by the Economy and Information Technology Department and Financial Department of Zhejiang Province.

We believe, smart manufacturing is one of the major trends of mainland China electric two-wheeled vehicle industry. Currently most manufacturers including some leading players' manufacturing facilities still mainly leverage forklifts to transport materials or components, or rely on manual work for vehicle frame welding or vehicle assembly, which is of low efficiency and relatively high cost. We believe that our efforts in improving the informatization level of our production equipment allows us to bring consumers products with more stable quality, thereby further enhancing our brand image. We believe such efforts have increased the replicability of our production process and is conducive to and lays a solid foundation for future production capacity expansion.

We have a complete quality inspection system and strictly implement our quality control measures. Our products have been on the market for many years, and we have gained extensive recognition and good reputation for the quality of our products. By being able to conduct rigorous testing on over 200 major items and 1,100 minor items of electric two-wheeled vehicles, our testing center has reached international advanced level and has also been certified CNAS Accredited Laboratory (CNAS認可實驗室) by the China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會).

We have a professional and experienced management team.

Our founders have extensive experience in the electric two-wheeled vehicle industry, with over 25 years of experience in the industry. The engineering background and outstanding experience in corporate governance of our founders, are one of the key factors for our success. Mr. Ni holds a master's degree in engineering majoring in communication and electronic systems from the University of Science and Technology of China (中國科學技術大學). He is one of the pioneers in the electric two-wheeled vehicle industry in mainland China. With over 25 years of experience, he has witnessed the vigorous development of mainland China's electric two-wheeled vehicle industry, led the development of key technologies and is the inventor of 43 relevant invention patents and utility model patents, including those covering liquid-cooled motor, liquid-cooled integrated power technology, controller air-cooled technology, smart charging technology, lead-acid SOC precise electricity technology, flexible floating brake technology and Ludong online platform technology. As a technology leader of the industry, Mr. Ni has participated in formulating major industry standards of the electric two-wheeled vehicle industry, including the Safety Technical Specifications for Electric Bicycles (《電動自行車安全技術規範》). In addition, Mr. Ni has held senior industrial positions, such as vice chairman of the technical committee of the China Bicycle Association (中國自行車協會) and also vice chairman of this association. Mr. Ni has also been recognized as one of the industry leaders by media. For example, he was selected as one of the Top 10 Industry Persons by CCTV and China Network Television. With his many breakthrough contributions to the technological advancement of the industry, Mr. Ni has established his prominent position in mainland China's electric two-wheeled vehicle industry. For details on Mr. Ni's honors and titles, see "Directors and Senior Management – Directors."

Ms. Hu holds a master's degree in power system and automation from Hefei University of Technology (合肥工業大學). With her professional background, Ms. Hu has been able to lead our development from a unique vision combining technology and corporate governance and build a solid management foundation for our success. Ms. Hu has won numerous awards which fully demonstrate her strong industrial influence, including the 5th Zhejiang Outstanding Female Entrepreneur (浙江省第五屆浙商女傑稱號), and the Jinhua Outstanding Entrepreneur (Golden Bull Award) (金華市優秀企業家(金牛獎)稱號). She is also a representative of the 12th Shandong Provincial People's Congress. For further details on Ms. Hu's honors and titles, see "Directors and Senior Management – Directors."

We believe our technical knowledge has laid a solid foundation for our Group's success. Inspired by our founder's spirit of excellence and refinement, our Group has established a cohesive management team. We believe that our management team's technical experience, management capability, and the spirit of solidarity and mutual trust developed over the years have become our competitive advantage.

STRATEGIES

Leveraging our competitive strengths, we aim to become an enterprise leading the development of mainland China's electric two-wheeled vehicle industry by implementing the following strategies:

Further enhance brand awareness and increase market share in mainland China.

We plan to continuously promote our brand to increase awareness among existing and potential end customers to increase our market share in mainland China. Specifically, we plan to use multiple marketing vehicles on traditional and new media channels to enhance visibility and recognition of our brands and ensure comprehensive consumer exposure.

Our traditional media channel matrix covers offline promotions, media advertisements, public relations activities, spokesperson engagement and other traditional media channels. We will primarily focus on entertainment marketing by sponsoring film, television and variety shows leveraging our successful experiences in sponsoring variety shows and dramas. In addition, as we expect the popularity of sports events to rebound since the lifting of the zero-COVID policy in mainland China, we engaged the national table tennis team as our spokespersons in March 2023 plan to build various marketing campaigns around this cooperation. Furthermore, as offline retail outlets remain the main sales channel in the electric two-wheeled vehicles industry, we plan to continue to invest in offline brand promotion activities around our retail outlets, including traditional outdoor advertisements, more innovative and interactive large-scale promotional activities, and online-to-offline marketing designed to bring online traffic to our physical retail outlets.

We will also take advantage of new media channels including Internet advertisements, emerging social medial platforms and others. We plan to implement precise and efficient advertising strategies and utilize emerging social medial platforms to engage in personalized consumer interaction. With an aim to generate more organic word-of-mouth marketing and recommendation from distributors and customers, we will increase our use of content marketing on social media and new media platforms.

We intend to leverage our competitive advantages in technology development and insights into consumer preferences and habits to produce highly acceptable and recognizable products. Our recent marketing campaigns will focus around our marketing tagline of "*Luyuan Liquid-cooled Electric Vehicles, A Ten-Year Ride*" (綠源液冷電動車,一部車騎十年), showcasing the quality and durability of our liquid-cooled electric vehicles and other popular products and the advantages of our technologies. Based on our liquid-cooled motor technology, we plan to further expand our product portfolio to cover other product categories including electric strollers, electric skateboards and electric three-wheelers. In particular:

- In terms of the product appearance, we plan to continue to leverage our position as the first and only China Color Innovation Center for Electric Two-wheeled Vehicles designated by China Fashion Color Association and release fashion colors and lead the color trend of electric two-wheeled vehicles. We plan to further attract young and fashionable consumer groups by launching vehicle models in collaboration with artists or IPs. We also plan to cooperate with professional design teams to create blockbuster products to promote our brand image.

- In terms of functional details such as feedback from saddles, handlebars, lights, review mirrors and brakes, we plan to increase the number of focal points of our internal product review to enhance user experience.

- In terms of new functions, we plan to optimize user experience by launching an updated version of the *Luyuan APP*, which comprehensively strengthens interaction between users and our vehicles, so that the smart functions such as saddle sensors and voice interaction can be fully integrated into our new products.

- We plan to launch more derivatives for electric two-wheeled vehicles, such as high-quality rearview mirrors, aluminum alloy windshields and customized caterpillar saddles, further completing our brand system.

We intend to apply approximately [**REDACTED**]% or HK$[**REDACTED**] of the net proceeds from the [**REDACTED**] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See "Future Plans and Use of Proceeds – Use of Proceeds" for details.

Further enhance production capacity to support rapid business growth.

The market size of electric two-wheeled vehicles is estimated by Frost & Sullivan to increase at a CAGR of 4.6% in mainland China and 9.5% globally from 2023 to 2027 in terms of total sales volume. We intend to continue to expand our production capacities to address growing demands of our products while solidifying our market position. In particular, we plan to selectively construct a new production facility in a Southwestern China city with mature supply chains and supporting resources. We expected the new production facility to commence operations in 2024 and incrementally increase production capacity up to approximately 2.0 million units annually by 2026.

The new factory at our Zhejiang Plant, which came into operation in April 2022, extensively utilizes unmanned material handling systems and overhead conveyor systems that greatly enhance production efficiency. With an aim to align with this standard, we plan to incrementally elevate the informatization level and production efficiency of our other production facilities, including our Shandong Plant and Guangxi Plant, through deploying more new and advanced production machinery and equipment. We also plan to enhance our warehousing and logistics capabilities including by constructing new warehouses and adopting three-dimensional racks.

Furthermore, we plan to upgrade our information technology systems along with the expansion of our production capacity to improve operational efficiency in the management of procurement, production planning, inventory, sales, logistics and administration. In particular, we plan to set up a big data platform to enhance our digitalization analysis capabilities, to better understand consumer preferences and formulate optimal production plans accordingly.

We intend to apply approximately [**REDACTED**]% or HK$[**REDACTED**] of the net proceeds from the [**REDACTED**] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See "Future Plans and Use of Proceeds – Use of Proceeds" for details.

Further upgrade, expand and optimize the layout of our sales and distribution network.

We cooperated with 1,314 offline distributors in mainland China who controlled over 11,400 retail outlets in 319 cities across 30 provincial-level administrative regions in mainland China as of April 30, 2023. With reference to official administrative divisions, we divided our market in mainland China into 106 city clusters under three tiers (strategic, key and general) and will continue to optimize our sales and distribution network by implementing tailored strategies for each tier. For the strategic tier such as Jinan and Hangzhou whose performance has a significant impact on our national brand recognition and reputation, we plan to fully leverage the capabilities and resource advantages of high-quality distributors through customized strategies, attract more high-quality distributors to join our distributor network, and open experiential and landmark retail outlets to boost our brand influence. For the key tier, we plan to continuously optimize and develop our network through business analysis and customer insights to enhance local market competitiveness. For the general tier, we are committed to maintaining good relationships and cooperation, enhancing their stickiness and trust with us and achieving sustained and stable growth.

Going forward, based on the current distribution of our network, we plan to further support and motivate distributors to operate additional retail outlets or develop sub-distributors, especially in Eastern China and Central and Southern China, primarily through the addition of the following three main types of retail outlets: (i) core retail outlets located in major business districts to establish primary influence in the region and ensure basic local sales; (ii) community and township retail outlets to expand network coverage and deepen penetration; and (iii) experience retail outlets at commercial centers or landmark locations to bolster our brand image and increase end-consumer touch points.

We plan to further strengthen our management capabilities for distribution channels. We plan to continue to optimize our selection, evaluation and monitoring of distributors and support them through providing more effective training. We plan to further upgrade and optimize our various information technology systems to improve operating efficiencies. Specifically, we plan to upgrade our SI store management system to strengthen and increase our guidance over distributor retail outlets to unify our brand image and improve customer service which we believe will help increase customer's loyalty to our brand.

Moreover, we attempt to bring online traffic to our physical retail outlets, which we believe will enhance the visibility of our brand and products and make our products more accessible to potential consumers. In this process, we will leverage various marketing vehicles including social media to carry out branding and promotion activities and launch new products. For details, see "– Sales and Distribution – Online Channels".

We intend to apply approximately [**REDACTED**]% or HK$[**REDACTED**] of the net proceeds from the [**REDACTED**] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See "Future Plans and Use of Proceeds – Use of Proceeds" for details.

Further enhance our research and development capabilities to solidify our position in product and technology.

We believe capabilities in research and development and design have been critical for us to deliver advanced, high-quality and fashionable products with outstanding performance. Following industry trends, we are committed to investing significant resources in our research and development efforts to enhance the autonomous rate of our products, maintain our technical edge and continue to promote technology development and innovation in the electric two-wheeled vehicle market.

In particular, we plan to continuously improve the performance of our products and technologies, such as further upgrading our liquid-cooled motor technology to enhance driving range and further optimizing our ceramic brake system to enhance safety level and user experience. We plan to extend our research and development efforts to battery swapping, including developing infrastructure and management systems for centralized battery swapping and the application of different types of batteries on electric two-wheeled vehicles such as sodium-ion batteries and solid-state batteries to offer users safer and more convenient electric two-wheeled options. To reinforce our product positioning as safe, reliable, and hassle-free electric two-wheeled vehicles, we plan to focus on improving the overall quality and durability of our products while reducing weight by testing and introducing new materials and new structural designs. We will also focus on developing IoT-enabled vehicles or other functions to enhance user convenience and experience.

In addition, with the extended application of lithium-ion batteries, shared mobility and battery swapping industries are expected to offer the electric two-wheeled vehicles industry new development opportunities. Leveraging our strength as a well-known electric two-wheeled vehicle brand that has continuously contributed to industry development and in order to further create an electric two-wheeled vehicle ecosystem, provide users with safe, convenient, economic and diversified mobility options, we plan to increase our research and development efforts in shared mobility, battery swapping and other services, invest in hardware infrastructure for battery swapping, including batteries and charging cabinets, and launch an online shared mobility and after-sales service platform.

As our long-term success and growth will depend on our ability to improve our products and technologies described above, which meet consumers' needs and evolving market trends, we plan to further upgrade our research and development infrastructure and equipment, including by introducing advanced research and testing equipment and software. We will fully tap into the strength of our National High-tech Enterprise (國家級高新技術企業), Provincial-level Enterprise Research Institute (省級企業研究院) and Provincial-level Enterprise Technology Center (省級企業技術中心) statuses and strengthen our cooperation with suppliers, universities and research institutes to further improve our research and development capabilities.

We intend to apply approximately [**REDACTED**]% or HK$[**REDACTED**] of the net proceeds from the [**REDACTED**] to finance our research and development expenditures other than those for talent recruitment. The remainder will be funded by our internal resources and/or bank borrowings. See "Future Plans and Use of Proceeds – Use of Proceeds" for details.

Continue to attract, train and motivate talented professionals.

In line with our business growth, we will continue to attract, train and motivate high caliber employees and talents. In particular, our recruitment plan will focus on talents with expertise in specialized areas such as research and development including battery swapping and IoT technologies given their future growth potentials and sales and marketing to support the growth of our sales and distribution channels.

We plan to align our interests with that of our employees. To achieve this goal, we have adopted share incentive schemes, the details of which are set forth in "Statutory and General Information – D. Share Incentive Schemes" in Appendix IV. We also offer employees, especially those with outstanding performance, on-the-job training that prepare them for management positions and allow them to achieve career aspirations so that we and our employees can both succeed. We believe such measures help attract and retain high caliber talents and solidify our market position.

We intend to apply approximately [**REDACTED**]% or HK$[**REDACTED**] of the net proceeds from the [**REDACTED**] to finance our recruitment of additional research and development personnel. The remaining spendings in relation to our employment and recruitment will be funded by our internal resources and/or bank borrowings. See "Future Plans and Use of Proceeds – Use of Proceeds" for details.

Steadily expand our business in international markets.

With the support of our advanced technologies and quality products, we plan to take advantage of favorable policies to further expand our presence in international markets. Given its ideal location neighboring Southeast Asia markets, we believe our Guangxi Plant offers unique advantages in terms of lowering production and logistics costs that will greatly support our overseas expansion plans. In addition, we have formulated detailed expansion plans tailored to different overseas markets based on comprehensive analysis on various aspects including market size, market conditions and regulatory requirements.

As compared to the PRC, international markets are at a relatively early stage of development and their legal and regulatory requirements are different from those in China in various aspects and still evolving. For example, an EEC certification which refers to the European Economic Community certification, is a mandatory standard used within the European Economic Area, indicating that a product meets the relevant EU regulations and has passed corresponding safety, health, and environmental protection tests. Some southeast Asia countries have developed their own regulatory requirements using the EEC certificate as a blueprint. We recognize that overseas markets have different and/or evolving laws and regulations regarding electric two-wheeled vehicles. Therefore, when entering and operating in overseas markets, we will conduct comprehensive and continuous analysis on the market conditions and regulatory requirements, consult overseas distributors with local experience and seek professional advice whenever necessary to ensure compliance. We also cooperate with local distributors to complete relevant registrations or approvals to ensure our products comply with local laws and regulations before being licensed or used on road. Our Directors confirm, to the best of their knowledge, there has been no material non-compliance of laws and regulations of the relevant overseas markets where our products were distributed during the Track Record Period and up to the Latest Practicable Date. For a relevant risk factor, see "Risk Factors – Risks Relating to Our Business and Industry – We may be unsuccessful at maintaining or expanding our international sales and our international sales may subject us to risks that may have a material adverse impact on our business."

Instead of targeting different consumer subsets, we have formulated our overseas expansion plans around our understandings of the major product demands, local consumer habits and overall economic level in the countries and regions and rely on distributors with local expertise and resources to distribute suitable customized products that meet local demand or sample products to test the market. For example, in North America and Europe which aggregately account for approximately 45% of sales in overseas markets, there is greater demand for electric two-wheeled vehicles for daily commuting, shopping and leisure purposes. These markets have relatively higher but stable regulatory requirements with consumers with higher consumption powers, and therefore suitable for our long-term development. We intend to further explore such markets by actively exploring local customers and initially supplying small batches of product models ordered by such local customers for them to gauge the demand and preferences of local customers. As another example, in Southeast Asia markets excluding India, demand for electric motorcycles with higher speed and longer driving range is stronger and local governments tend to promulgate favorable supporting policies out of environmental and resource preservation considerations. We plan to leverage the ideal location of our Guangxi plant to provide more tailored products for the Southeast Asia market. As we deepen our cooperation with existing overseas distributors in developed markets such as Thailand and Indonesia and as our distribution in Southeast Asia expands, we expect to manage risks of cannibalization and channel stuffing through introducing regional product restrictions and designated distribution areas. Leveraging our product development and customization capabilities, we will actively pursue opportunities to tap into major cities our nearby countries such as Malaysia with products that cater to local demand. In the mid- to long-run and following the development of ASEAN integration, we also plan to localize production and sales by establishing a Southeast Asia operation center.

We intend to apply approximately [**REDACTED**]% or HK$[**REDACTED**] of the net proceeds from the [**REDACTED**] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See "Future Plans and Use of Proceeds – Use of Proceeds" for details.

OUR BUSINESS AND PRODUCTS

We are mainly engaged in the design, development, manufacturing, marketing, and sales of electric two-wheeled vehicles, offering consumers a convenient, safe, cost-effective and environmentally friendly riding experience and an alternative mobility option to other ways of transport such as by four-wheeled automotives or public transportation. Our electric two-wheeled vehicles are empowered by various technologies that enhance performance and digital and smart connectivity, designed and developed by leveraging our in-house research and development capabilities and close collaboration with third parties. For more details about our technologies, see "– Research and Development – Our Technologies." The manufacturing of our electric two-wheeled vehicles is substantially fulfilled by our three strategically located production plants equipped by various advanced equipment.

We currently offer our products under our *Luyuan* (綠源) brand, which has over 20 years of history. Our *Luyuan* brand was recognized as a well-known trademark of China (中國馳名商標), famous trademark of Zhejiang Province (浙江省著名商標) and have received other national awards and recognitions. See "– Awards and Recognitions" for details.

During the Track Record Period, our revenue was mainly derived from the sale of electric two-wheeled vehicles which can be broadly classified into electric motorcycles, electric mopeds, and electric bicycles. To a much lesser extent, we also generated revenue from sale of other special function vehicles, batteries and other vehicle parts, and the provision of various services to our distributors. The following table sets forth a breakdown of (i) our revenue by type of product and (ii) revenue generated from the provision of services to distributors during the Track Record Period.

	For the year ended December 31,						For the four months ended April 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
Types of products										
Electric bicycles	1,010,096	42.5	1,423,625	41.7	2,232,086	46.7	450,089	38.7	804,532	48.7
Electric mopeds	722,892	30.4	495,043	14.5	258,177	5.4	104,385	9.0	27,241	1.6
Electric motorcycles	244,920	10.3	686,672	20.1	953,887	19.9	265,019	22.8	377,373	22.9
Batteries[1]	306,366	12.9	606,128	17.7	1,052,365	22.0	257,859	22.2	363,116	22.0
Electric two-wheeled vehicle parts[2]	60,220	2.5	147,793	4.3	226,164	4.7	67,952	5.9	57,574	3.5
Others	11,430	0.5	5,446	0.2	5,090	0.1	318	0.0	61	0.0
Subtotal	2,355,924	99.1	3,364,707	98.5	4,727,769	98.8	1,145,622	98.6	1,629,897	98.7
Types of services										
Training service	10,421	0.4	28,081	0.8	36,765	0.8	13,049	1.1	14,425	0.9
Others	11,987	0.5	24,899	0.7	18,489	0.4	3,290	0.3	7,102	0.4
Subtotal	22,408	0.9	52,980	1.5	55,254	1.2	16,339	1.4	21,527	1.3
Total	**2,378,332**	**100.0**	**3,417,687**	**100.0**	**4,783,023**	**100.0**	**1,161,961**	**100.0**	**1,651,424**	**100.0**

Notes:

1. Representing batteries sold together with our electric two-wheeled vehicles.

2. Representing vehicle parts, such as tires and batteries, sold separately to distributors for their provision of after-sales services to end customers.

The following table sets forth the sales volume and average selling prices per unit of our electric vehicles (excluding batteries) for the periods indicated:

	For the year ended December 31,						For the four months ended April 30,			
	2020		2021		2022		2022		2023	
	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit
	unit	*RMB*	*unit*	*RMB*	*unit*	*RMB*	*unit*	*RMB*	*unit*	*RMB*
Electric bicycles	873,708	1,156	1,218,462	1,168	1,705,300	1,309	361,204	1,246	674,502	1,193
Electric mopeds	451,504	1,601	330,913	1,496	172,467	1,497	68,070	1,533	18,413	1,479
Electric motorcycles	144,874	1,691	398,304	1,724	546,601	1,745	152,593	1,737	230,435	1,638
Others	2,379	4,805	654	8,327	199	25,580	8	39,657	2	30,897
Total	**1,472,465**	**1,351**	**1,948,333**	**1,340**	**2,424,567**	**1,423**	**581,875**	**1,409**	**923,352**	**1,310**

Our electric two-wheeled vehicles are built with a focus on quality, safety and durability, and are currently available in approximately 68 models with different designs and specifications to cater to a wide range of consumer preferences and demands. The table below sets forth a summary of certain features of our electric motorcycles, electric mopeds and electric bicycles as of April 30, 2023.



	Electric Motorcycles	***Electric Mopeds***	***Electric Bicycles***
Representative model	*MKK (極影)*	*MOO (MODA3)*	*ZQQ (INNO9)*
Motor power	≥1,200W	600W-1,000W	≤400W
Maximum speed	>50km/h	≤50km/h	≤25km/h
Load capacity	≤150kg	≤75kg	≤75kg
Driving range	50km ~ 100km	40km ~ 100km	30km ~ 100km
Suggested retail price (including batteries and VAT)	RMB2,599 ~ 5,299	RMB2,399 ~ 4,599	RMB1,399 ~ 5,099
Driver's license	D, E license	D, E, F license	Not required

Electric Motorcycles

Our electric motorcycles are two-wheeled vehicles powered by powerful electric motors and rechargeable batteries capable of reaching a speed of over 50km/h. They typically feature a covered frame, a step-through chassis and a footrest platform. In contrast to conventional motorcycles, electric motorcycles are easy to maneuver, require less maintenance and represent an energy-efficient and environmentally friendly mobility experience. Set forth below are pictures of our electric motorcycles.

Electric Motorcycle (MKK (極影))

For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from our electric motorcycles amounted to RMB244.9 million, RMB686.7 million, RMB953.9 million, RMB265.0 million and RMB377.4 million, respectively, representing 10.3%, 20.1%, 19.9%, 22.8% and 22.9% of our total revenue for the same periods, respectively.

Electric Mopeds

In line with the classification under the Safety Specification for Electric Motorcycles and Electric Mopeds (GB24155-2020) (《電動摩托車和電動輕便摩托車安全要求》(GB24155-2020)), while similar in terms of exterior appearance, electric mopeds are typically less powerful in terms of motor capacity, loading capacity, braking system and overall performance as compared with electric motorcycles, but are more advanced than our electric bicycles in these aspects. Set forth below are pictures of our electric mopeds.

Electric Moped (MOO (MODA3))

For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from our electric mopeds amounted to RMB722.9 million, RMB495.0 million, RMB258.2 million, RMB104.4 million and RMB27.2 million, respectively, representing 30.4%, 14.5%, 5.4%, 9.0% and 1.6% of our total revenue for the same periods, respectively.

Electric Bicycles

Electric bicycles are largely similar to bicycles but equipped with electric motors and rechargeable batteries to power the vehicle, or to assist with pedaling as they have retained functional pedals. As compared with electric motorcycles and electric mopeds, electric bicycles typically have fewer plastic parts coated, more vehicle frame exposed, and are comparatively lighter and more portable. Set forth below are pictures of our electric bicycles.

Electric Bicycles (ZQQ (INNO9))

For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from our electric bicycles amounted to RMB1,010.1 million, RMB1,423.6 million, RMB2,232.1 million, RMB450.1 million and RMB804.5 million, respectively, representing 42.5%, 41.7%, 46.7%, 38.7% and 48.7% of our total revenue for the same periods, respectively.

Other special function vehicles

During the Track Record Period, we accommodated special requests by customers and sold (off-road use) electric sightseeing vehicles (非公路用旅遊觀光車) which are required to comply with the General Technical Conditions for Garden Patrol Minibus (《非公路用旅遊觀光車通用技術條件》) instead of the New National Standards. For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from special function vehicles amounted to RMB11.4 million, RMB5.4 million, RMB5.1 million, RMB318,000 and RMB61,000, respectively, representing 0.5%, 0.2%, 0.1%, 0.0% and 0.0% of our total revenue for the same periods, respectively.

Batteries and vehicle parts

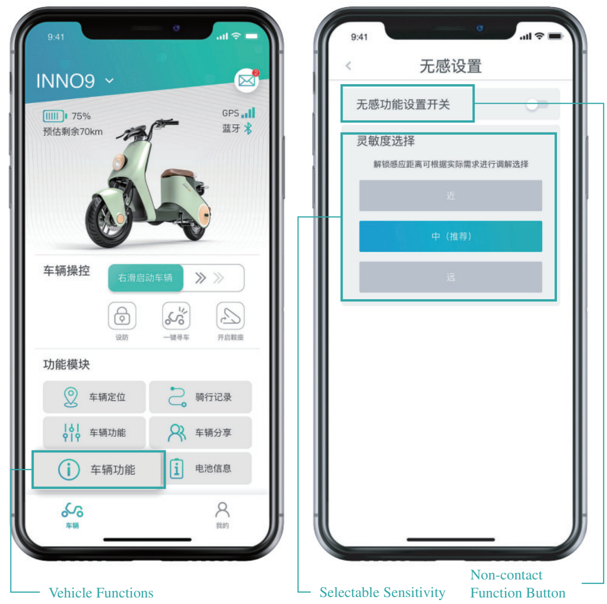
We sell batteries together with our electric two-wheeled vehicles. We also sell electric two-wheeled vehicle parts, such as tires and batteries, separately to distributors for their provision of after-sales services to end customers. For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from batteries and other related products amounted to RMB366.6 million, RMB753.9 million, RMB1,278.5 million, RMB325.8 million and RMB420.7 million, respectively, representing 15.4%, 22.0%, 26.7%, 28.0% and 25.5% of our total revenue for the same periods, respectively.

Our *Luyuan* Mobile App and Smart Features

Drawing upon our industry expertise, we have been enriching our electric two-wheeled vehicle product offerings by introducing connectivity and smart features to our vehicles. According to Frost & Sullivan, the premium segment, which covers vehicles with better performance, diversified functions including more advanced features, is expected to be more popular among consumers and thus gain stronger growth momentum with a CAGR of 27.6% from 2023 to 2027.

We have integrated several smart functions to certain high-end product models that are accessible through our *Luyuan* mobile app, including vehicle positioning, tracking, monitoring, remote sharing and anti-theft functions. The picture below sets forth the homepage and user interface of our *Luyuan* mobile app.

- *Digital keys*. We have developed digital keys to enhance customer convenience. Our customers can unlock their vehicles through our mobile app by utilizing Bluetooth or NFC functions, allowing our users to forget about carrying or losing physical keys. Once users successfully install our app and pair their smartphones with their vehicles, they can use their smartphones as keys to unlock the vehicles when they approach them. Users can also select the sensitivity mode and adjust the sensing distance according to their needs and preference. The pictures below set forth illustrative examples of our digital key function.



- *Anti-theft features*. Our vehicles are equipped with positioning systems, that pinpoints the location of the vehicle on our mobile app. It can also track riding information such as riding time, distance, average speed, and routes. In the event of attempted theft, movement sensors and anti-theft alerts the users by message if their vehicles are receiving unexpected or unauthorized movement.

- *Remote vehicle sharing*. Our *Luyuan* mobile app allows owners to remotely share access to other users, such as family and friends, by entering information of the user and sending a digital key through instant messaging apps. Owners can manage the user accounts and cut off their connections to the vehicles after the sharing. We believe, in addition to providing convenience to our customers, this function potentially expands our user base by allowing those that do not currently own our vehicles to gain firsthand riding experience.

We also equip our vehicles with other smart features to enhance user experience throughout the entire riding experience. Certain premium models of our vehicles have installed cruise control systems that help users maintain speed and reduce fatigue. On several vehicle models, we offer auto-sensing headlights that make it safer for users to ride at night and an adjustable walk-assist mode to make our vehicles more maneuverable when pushing. In addition, we have installed saddle sensors on some of our vehicles that prevent accidental acceleration when pushing the vehicle. When used together with Bluetooth automatic distance sensing functions, such sensors can power-off the vehicle automatically three minutes after the user leaves the vehicle.

RESEARCH AND DEVELOPMENT

We believe our success is largely attributable to our strong research and development capabilities and our continued commitment to research and development efforts. In light of changing consumer preferences and regulatory developments in the electric two-wheeled vehicle industry, we are committed to continuing to ensure product compliance, quality and safety as well as keeping up with new technologies in order to build and maintain our market position. For example, we have developed in-house our liquid-cooled motor technologies that prevents motors from overheating and enables longer travel distance and are also devoting resources to research and development in areas with strong growth potential such as safe lithium-ion battery technologies and charging cabinets in relation to battery swapping and functions including saddle sensors and voice interaction.

In order to keep in pace with consumer preferences, our research and development team works closely with our sales and marketing department which tracks and collects consumption data through our vast offline distribution network and online channels. In addition, in order to enhance product quality, promote cost efficiency and promote overall profitability, we have developed innovative production techniques and installed advance equipment to optimize our manufacturing process. For example, we have equipped our production plants with robotic technologies that can perform tasks such as unmanned welding to enhance production efficiency and improve stability of product quality.

Our research and development efforts have produced notable technical achievements and have a track record of developing intellectual property and industry know-how that can be applied to our products. As of the Latest Practicable Date, we registered a total of 437 patents in mainland China, including 46 invention patents, covering key areas such as liquid-cooled motor and battery management. In addition, as a testament to our research and development capabilities, we have participated in the establishment and revision of four national standards and three industry standards, including the New National Standards in 2018.

Research and Development Teams

We have a professional and experienced research and development team led by Mr. Ni, our co-founder, who is committed to constantly investing into technology development. As of April 30, 2023, we have assembled a team of 361 employees in our research and development team, with specialties covering electrical engineering, mechanical engineering and automation and man-machine and environmental engineering. We have divided our research and development department into two primary functions with one focusing on the development of new products and the other focusing on the research of fundamental technologies in relation to electric two-wheeled vehicles, such as control units, motors, battery packs and braking systems. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, our research and development costs amounted to RMB83.5 million, RMB95.8 million, RMB150.5 million, RMB29.0 million and RMB41.9 million, respectively.

External Collaboration

In addition to leveraging our in-house research and development capabilities, we have formed in-depth collaboration with our upstream suppliers in relevant industries to acquire additional support to our own research and development efforts and promote the development of electric two-wheeled vehicle technologies and components. We are deeply involved in the research and development process of our suppliers and provide them with valuable improvement and optimization suggestions to their technical and structural designs. We provide them with substantial performance testing and verification that are necessary for the deployment of their products on electric two-wheeled vehicles using our in-house testing equipment and facilities. We believe such joint research and development collaboration provides us with insights into industry trends and emerging new technologies, enabling us to focus our current and future research and development efforts more effectively. For example, we have collaborated with our suppliers on a number of components including ceramic brakes, SOC precise battery display LCD dashboards, steel cord tires, aramid tires and chargers. The major terms of our strategic cooperation agreements with relevant suppliers typically include the following terms:

Exclusive supply	We are entitled to the exclusive rights to use particular patented products of the supplier. The supplier shall notify us of any upgrade or breakthrough with respect to relevant patents which shall become the subject of the agreement.
Term	The term of the strategic cooperation agreements is typically one year.
Joint R&D and ownership of intellectual property	The parties agree to enhance cooperation in terms of research and development of product technologies. The suppliers shall assign core technical personnel to participate in our research and development efforts. Any intellectual property derived from a development plan proposed by one party shall be owned by such party and any intellectual property jointly designed and developed products shall be jointly owned by the parties.
Most favorable price	Under the premise of maintaining reasonable profit, the supplier agrees to offer us the most favorable pricing terms within the industry.

Termination	We are entitled to terminate the agreement upon the occurrence of certain specified events, such as mass quality incidents caused by the supplier's products, failure to offer us their latest products and technologies and failure to prioritize the production of our products in peak seasons.

Product Development Process

As part of our effort to ensure that we deliver the best products with consistent product quality to consumers, we maintain a standard product development process, product standards and critical control points for each of our core products. Our product development process primarily consists of the following key steps:

- *Project planning and feasibility assessment.* In the product planning phase, our sales and marketing department crafts proposals for new products after analyzing end user needs, competitive environment and market feedback. Our research and development team then assesses feasibility in terms of product engineering, quality assurance, safety, aesthetics, function, costs and manufacturability. Upon completion of feasibility assessment, such proposals are submitted to our management for approval.

- *Structural and technical design.* Once approval is received, our research and development team then develop the structural and technical design and sets out the specifications and details of raw materials, components and accessories required to manufacture the product and ensure the best possible user experience. Based on the confirmed design, our research and development team will work with our suppliers to produce prototype vehicles.

- *Trial production and trial sales.* Once a prototype passes testing phase with satisfactory results, we conduct trial production to evaluate safety, performance and reliability of the prototypes and the manufacturing process to enhance production efficiency. Our research and development department then partners with our marketing department to roll out the new products to selected regions for small-scale trial sales to test market acceptance. Our sales and marketing department will closely monitor our sales and customer feedback and assist our research and development team in adjusting the prototype as needed.

- *Mass production.* After receiving positive feedback from trial sales, we pass on the product to our manufacturing facilities for mass production.

Our Technologies

Leveraging our in-house research and development capabilities and collaborations with upstream suppliers, we have equipped our vehicles with a variety of advanced and effective technologies. Set forth below are a number of examples.

Liquid-Cooled Motor Technology

Most of our current electric two-wheeled vehicle models have adopted motors that are equipped with our independently developed liquid-cooled motor technology, which is currently the only technology related to electric two-wheeled that has been awarded the Science and Technology Progress Award (科學技術進步獎) issued by China National Light Industry Council (中國輕工業聯合會). Our liquid-cooled motor technology features an insulating coolant that absorbs excessive heat and decreases operating temperature of the motor, which enables our motors to reach a motor efficiency of over 90%, higher than that of traditional air-cooled motors. Such increased motor efficiency then translates into an increase in driving range. The proprietary design of our liquid-cooled motor which offers low working temperature, dustproof, waterproof, rust-proof and anti-demagnetization effects also increases the longevity of our motors. By maintaining a high level of motor efficiency, our liquid-cooled motor also prevents our batteries from overloading and thereby increasing battery life. As a result, we are able to provide a six-year warranty period for our electric two-wheeled vehicles and core parts such as the air-cooled controllers and motor, which is the longest warranty period among other industry peers, according to Frost & Sullivan. In addition, since May 2022, we further extended the warranty period of our liquid-cooled motors to ten years. We are the first and only company to provide such a long warranty period for electric motors in the industry.

We have also developed a liquid-cooled middle drive motor, which, in addition to adopting liquid-cooled heat dissipation technologies, as compared to wheel-hub motors, integrates the motor and controller (the two most critical heat sources of electric two-wheeled vehicles) in the same cabin closer to the center of the vehicle to provide further improved efficiency and service life and achieve a more balanced riding experience.

Lead-acid Battery SOC Mileage Management Technology

SOC, or state of charge, describes the amount of energy left in a battery at a specific point in time, similar to a fuel gauge in a gasoline-powered vehicle. The majority of electric two-wheeled vehicles utilize lead-acid batteries and most indicate remaining battery level with a few inaccurate bars. Leveraging our in-house developed lead-acid battery SOC mileage management technology which is capable of accurately displaying remaining battery of lead-acid batteries in percentage, we allow our users to easily and accurately determine when to recharge their vehicle or how far they could travel. With this technology, we are able to indicate battery level of lead-acid batteries by percentages 1%.

Safety Braking System

We use ceramic brake pads on electric two-wheeled vehicles. With brake pads made of ceramic materials, ceramic brakes help increase vehicle safety as they are able to reduce breaking distance due to higher value of friction coefficient compared to traditional brakes and have more stable performance under high temperature. Compared to traditional brake pads commonly seen on electric two-wheeled vehicles, our ceramic brake pads are capable of reducing braking distance by 30% and increasing brake life up to five years. In 2021, we further enhanced our safety braking system by adopting a mechanical design with flexible braking features developed in-house which increases pressure between the tier and the ground when braking and hence further reduces braking distance. At the end of 2021, we developed flexible anti-skid brakes based on our ceramic brake technologies that prevent wheels from locking while braking and avoid uncontrolled skidding.

Graphene Range Extension Steel Cord Tires

Tires are critical to the handling, braking, safety and power efficiency of electric two-wheeled vehicles. We add graphene to the tires of our vehicles to optimize the molecule structure of the tire rubber and enhance durability and wear resistance. Tires laced with graphene dissipate heat more efficiently and reduce rolling resistance which help reduce power loss and can extend the mileage up to an additional 10km as compared to traditional tires. We also reinforce our tires with a steel cord that offers increased durability, puncture resistance and damage energy level and thereby providing users a more stable and safer riding experience.

Product Design

Consumers, especially those of younger generations, are increasingly focused on product appearance and design. As such, we aim to offer electric two-wheeled vehicles that have a distinctive design identity that caters to customer preferences and improves our brand and product visibility to our target customers. To this end, in addition to leveraging our strong in-house vehicle design capabilities delivered by our internal design team which comprised 27 members as of April 30, 2023, including 12 experienced structural designers and 15 professional styling and color designers, we also collaborate with well-known industrial design companies to assist us in designs of new vehicle models. Prior to completing new vehicle designs, these industrial design companies are required to conduct extensive market research on the latest fashion trends and consumer preferences. In general, we are entitled to all intellectual property developed under our collaboration with third party industrial design companies. We are also the member of the China Fashion Color Association (中國流行色協會) which is designated as the first and only China Color Innovation Center for Electric Two-wheeled Vehicles and are in charge of releasing popular colors for electric two-wheeled vehicles in mainland China together with the association.

During the Track Record Period, leveraging our strong design capabilities and external collaborations, we launched more than 190 new models of electric two-wheeled vehicles under ten different series featuring different designs, functions tailored for different consumer groups. Set forth below are illustrative descriptions of certain features and consumer profiles of three main series.

Series	Features and consumer profile
 *S Series*	We offer both electric motorcycles and electric mopeds under the S Series mainly targeting male consumers in urban areas between 18 to 65, with a more muscular design featuring geometric planes and lines with simple colors. The S Series also features enhanced technical features and human-machine connectivity.
 *Moda Series*	We offer both electric motorcycles and electric mopeds under the Moda Series mainly targeting female consumers in urban areas between 18 to 65, with a more feminine design featuring curved lines and surfaces with cute and fashionable colors. The Moda series has adopted various core technologies including liquid-cooled motors, ceramic brakes, SOC mileage management technology and can be connected with our *Luyuan* Mobile App.
 *INNO Series*	We mainly offer electric bicycles under the INNO Series mainly targeting consumers between 18 to 65 of both sexes, with a design of geometric planes with simple but fashionable colors and a sense of technology, modernization and digitalization. It is primarily marketed in Tier 1 and Tier 2 cities in China. We have equipped the INNO Series with a variety of novel technologies such as seat sensors, cruise control and walk-assist. INNO Series electric bicycles are also equipped with long-life lithium-ion batteries extending its driving range to 100km.

PRODUCTION

We have been continuously building competitive advantages in our production capabilities since our inception. We manufacture a significant portion of the key components used in our electric two-wheeled vehicles in-house. For example, during the Track Record Period, apart from vehicles sold to certain corporate and institutional customers which have specific requirements for electric motors, 100% of our electric motors and over 75% of our vehicle frames were produced in-house. Meanwhile, to ensure quality of our products, we also carefully select component and raw material suppliers with reliable quality, research and development capabilities and reasonable prices for components such as batteries and central control units. We believe that this combination of in-house production and external procurement enables us to better control our core technical know-how and intellectual property, accumulate the knowledge and expertise which are required for optimizing production efficiency, ensure the quality of our products while controlling our production costs.

Production Planning

We typically prepare production plans on a periodic basis based on the production forecasts and seasonality. Through joint efforts of various departments of our Company including the procurement department and sales and marketing department, we also conduct a rolling production forecast based on actual orders received, which enables us to efficiently create an accurate procurement and production plan and maintain suitable inventory level.

Production Process

Our production process is designed to ensure high standards of quality and timely delivery to meet market demands. Set forth below are the key steps of our production process:

- *Preproduction quality control.* We conduct quality inspection over raw materials and components provided by suppliers against our internal standards and relevant rules and regulations prior to production.

- *Bending and welding of vehicle frame.* Pipes are bended and welded into vehicle frames. We use welding robots in this process to increase efficiency.

- *Surface treatment of vehicle frame.* Vehicle frames are further treated and polished to enhance resistance and outlook.

- *Processing and assembly of components.* We fine tune each component, including the electric control unit, electric motor, brakes and wheels before mounting them onto the assembly lines for assembly.

- *Surface treatment of plastic parts.* Premade plastic parts are processed and painted according to different designs.

- *Vehicle assembly.* At the final assembly process, motors, wheels, plastic parts and other components are assembled onto the vehicle frame forming a complete vehicle.

- *Post-production quality control.* We conduct quality inspection and test drive each and every complete vehicle.

- *Packaging.* After inspection and test drives, vehicles are generally packaged with protective films or carton boxes. Batteries and certain other components are stored separately.

Existing Production Facilities

As of the Latest Practicable Date, we operated three strategically located production facilities in mainland China. In April 2022, our new factory at our Zhejiang Plant commenced operation. This factory extensively utilizes unmanned material handling systems and overhead conveyor systems that greatly enhance production efficiency. The table below sets forth information regarding our existing production facilities as of April 30, 2023.

Facility Name	Location	GFA	Number of production lines	Primary products manufactured	Geographic coverage	Commencement of production
		(sq.m.)				
Zhejiang Plant	Jinhua, Zhejiang	238,259	11	Electric bicycles, electric mopeds and electric motorcycles	Mainly Eastern China including Zhejiang, Jiangxi, Jiangsu, Anhui, Fujian, and Shanghai	May, 2004
Shandong Plant	Linyi, Shandong	172,087	4	Electric bicycles, electric mopeds and electric motorcycles	Mainly Northern China including Shandong, Shanxi, Henan, Hebei, Beijing and Tianjin	July, 2009
Guangxi Plant	Guigang, Guangxi	136,034	5	Electric bicycles, electric mopeds and electric motorcycles	Mainly Southern China including Guangxi, Hainan, Guangdong, Yunnan and Guizhou	September, 2021

Critical Machinery and Equipment

We endeavor to equip our production facilities with advanced equipment, which we believe is essential to increase automation, ensure reliability, efficiency as well as cost competitiveness. We also use unmanned transport systems and welding robots, which can significantly improve production efficiency and lower unit production costs, to the production process of electric two-wheeled vehicles. The use of such robotic technologies can also enhance workplace safety by reducing human involvement in our manufacturing process.

We purchase various production and testing equipment and parts mainly from domestic suppliers which are then assembled in-house. We have also internally developed many of the production technologies and required customization of certain equipment.

Set forth below are certain critical machinery and equipment applied in our production process.

- Robot manipulator – Robot manipulators are humanoid and programmable production machinery used primarily for the production of vehicles frames and handles, etc. Robot manipulators are especially suitable for flexible production of multiple product types of different production volumes.

- Welding robots – We use welding robots to streamline the welding process, enhance production efficiency and stabilize product quality. The use of welding robots also shields our employees from hazardous fumes, dusts and welding arc flash.

- Coil winding machines – For motors, we use unmanned coil winding machines that offer stable performance and high precision and produces tighter coils using less wires.

- Electro-coating lines – We use electro-coating lines to apply a uniform, even and corrosion resistance coating on metal vehicle frames and other metal parts. Our electro-coating lines require minimal human operation and increase labor efficiency. They are also relatively environmentally friendly as they offer high paint recycle rates.

- Assembly lines – We equip our assembly lines with unmanned transport systems which significantly lower labor intensity, save valuable floor space and increase production efficiency.

Based on our replacement schedule, the expected useful lives of our major machinery and equipment are approximately three to ten years. As of the Latest Practicable Date, the average age of our major machinery and equipment was approximately eight years. We adopt the straight-line method to allocate costs of the relevant equipment over their estimated useful lives to calculate depreciation of our machinery and equipment.

Maintenance

We carry out inspections and maintenance at our production facilities. Each of our major equipment or machinery will be periodically maintained and serviced based on pre-defined schedules. We have developed and periodically update internal procedures at our production facilities according to the characteristics and requirements of the particular equipment or machinery in order to ensure they function properly. During the Track Record Period, we did not experience any material or prolonged suspensions of operations due to machinery, equipment or other facility failures.

Production Capacity

The following table sets forth a summary of our annual production capacity in terms of designed production capacity and utilization rates for our production facilities for the years and periods indicated.

	Year ended December 31,									Four months ended April 30,		
	2020			2021			2022			2023		
Facility	Production capacity[1]	Production volume	Utilization rate[2]	Production capacity[1]	Production volume	Utilization rate[2]	Production capacity[1]	Production volume	Utilization rate[2]	Production capacity[1]	Production volume	Utilization rate[2]
	(million units)		*(%)*	*(million units)*		*(%)*	*(million units)*		*(%)*			
Zhejiang Plant	1.0	0.9	85.1	1.1	1.0	94.4	1.9	1.2	64.1	0.5	0.4	69.1
Shandong Plant	0.8	0.6	74.8	0.8	0.7	86.8	0.8	0.7	88.2	0.3	0.3	87.3
Guangxi Plant[3]	–	–	–	0.2	0.1	63.8	0.6	0.5	85.5	0.3	0.3	89.9

Notes:

1. Production capacity is calculated based on daily production capacity (i.e. production capacity per hour per production line multiplied by daily hours and production lines in each production facility) multiplied by production days per month and production months per year/period and based on the following assumptions: (i) all production lines are functioning in its full capacity; (ii) our production lines operate eight hours per day; and (iii) 299 working days for 2020, 2021 and 2022, respectively and 91 working days for the four months ended April 30, 2023.

2. The utilization rate is calculated based on the production volume for the relevant year/period divided by the production capacity for the relevant year/period.

3. We operated production facilities on rental property in Guangdong which were discontinued and relocated to Guangxi (also on rental properties) around November 2019 as a transitional arrangement prior to the commencement of operation of our Guangxi Plant.

According to Frost & Sullivan, the industry average level of utilization rates is approximately 65%. As such, we have generally maintained high utilization rates during the Track Record Period. The lower utilization rate of our Zhejiang Plant in 2022 was primarily due to the expansion of production capacity following the commencement of operation of the newly established factory in April 2022 and experienced a ramp-up period since then. The utilization rate of our Shandong Plant continued to increase from 74.8% in 2020 to 86.8% in 2021, and further increased to 88.2% in 2022, primarily due to the gradual increase in production volumes to meet the increasing demand for our electric bicycles as reflected by the increase in revenue attributable to electric bicycles from 2020 to 2022. The increase in production capacity and utilization rate of our Guangxi Plant from 0.2 million units in 2021 to 0.6 million units in 2022 and from 63.8% in 2021 to 85.5% in 2022, respectively, were primarily attributable to the ramp-up of its production capacity since its commencement of operation in August 2021.

Production Expansion Plan

According to Frost & Sullivan, sales volume of electric two-wheeled vehicles in mainland China alone is expected to continue to grow in the future and reach 77.2 million units in 2027. Moreover, the utilization rates of our Shandong Plant and Guangxi Plant exceeded the industry average in 2022.

Accordingly, we plan to use a portion of the net proceeds from the [**REDACTED**] coupled with our internal resources for the construction of new production facilities, purchase of equipment and machinery for additional production lines and other related ancillary expenses, to meet the estimated market demand. See "Future Plans and Use of Proceeds" for further details. The following table sets forth details of our expected capital expenditure, additional planned production capacity and expected timeline for our production expansion plans.

Location/Facility	Description	Planned production capacity after upgrade/expansion				Expected capital expenditure				
		2023	2024	2025	2026	2023	2024	2025	2026	Total
		(million units)				(RMB millions)				
Southwestern China	Construct a new production facility, in a Southwestern China city with mature supply chains and supporting resources, which will involve the acquisition of land use rights, facility construction, equipment procurement and other general expenditures	–	0.8	1.5	2.0	–	225.2	105.1	7.5	337.8
Zhejiang Plant	Addition of new production lines and equipment for our Zhejiang Plant	2.0	2.0	2.0	2.0	32.8	–	–	–	32.8
Shandong Plant	Addition of new production lines and production equipment and enhance warehousing capabilities for our Shandong Plant	1.5	2.4	3.0	3.5	51.5	45.0	15.0	15.0	126.5
Guangxi Plant	Addition of new production lines and equipment and enhance warehousing capabilities for our Guangxi Plant	1.2	1.6	2.0	2.0	4.5	74.8	43.8	–	123.1

There is no guarantee that the expansion project will proceed as planned. See "Risk Factors – Risks Relating to Our Business and Industry – Failure to successfully execute our capacity expansion and equipment upgrade plans may have a material adverse effect on our business, financial conditions and results of operations." Our Directors may determine in the future that postponing a project is in the best interest of the Company after taking into account the prevailing market conditions, our financial resources and other relevant factors. We may also invest in additional expansion projects as we continue to grow our business.

SUPPLIERS AND RAW MATERIALS

Raw Materials

The key raw materials, parts and components for our operations primarily include batteries, including lead-acid batteries and lithium-ion batteries, motors, frames and iron spare parts, plastic parts, shock absorbers and tires. All of our suppliers are located in mainland China. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, raw materials and consumables used attributable to our cost of sales amounted to RMB1,920.7 million, RMB2,775.3 million, RMB3,883.5 million, RMB968.4 million and RMB1,344.5 million, respectively, representing 91.8%, 91.6%, 92.0%, 91.6% and 92.0%, respectively, of total cost of sales for the same periods.

Other than certain raw materials and components such as batteries, control units and brake pads, other raw materials such as metal and plastic components are commodities that can be readily purchased on public markets at transparent prices. During the Track Record Period, prices of our raw materials experienced fluctuations. For example, prices of lithium-ion batteries increased significantly in recent years primarily due to the shortage of lithium supply and booming demand of lithium from both NEV and power storage sectors. We do not engage in hedging using derivative instruments relating to the risk exposures in connection with our raw materials. We typically take into account such fluctuation in raw material costs when pricing our products. To reduce price risks on the procurement side, we generally enter into framework agreements with our suppliers. In particular, we may enter into agreements with price linkage clauses with suppliers of certain components to control price volatility by adjusting the prices periodically based on the price of raw materials or components and other factors. We also may stock up on relevant raw materials in advance in anticipation of price increases. We have not experienced any shortage of raw materials or quality issues with our raw materials during the Track Record Period that materially affected our operations. For a sensitivity analysis on the fluctuations in raw material costs during the Track Record Period, see "Financial Information – Description of Key Components of Our Results of Operations – Cost of Sales".

Suppliers

We strive to obtain high quality supplies from reliable sources at reasonable prices. Our centralized procurement system is jointly managed at our headquarters by procurement team under our business department and support department at our headquarters. Our procurement team is required to make purchases only from those suppliers on our accredited suppliers list. We carefully select our suppliers and require them to satisfy certain evaluation and assessment criteria. Before we engage a new supplier, our team evaluates various aspects of a supplier, including its ability to meet our requirements, production capacity, quality control, innovation capability, technical strength, financial conditions and market reputation. We also require our suppliers to comply with all applicable laws and regulations and inspect their licenses, certifications and other accreditation. We conduct assessments on our suppliers on a regular basis and rank our suppliers based on the results of the assessments. Suppliers that are ranked at the bottom of the ranking are required to make rectifications or we may terminate our cooperation with them.

For critical bottleneck supplies, we may secure exclusive supply arrangements with key suppliers, have multiple suppliers or suppliers with multiple technical solutions while taking their geographic location into account to minimize any potential disruption in our operations, maintain sourcing stability and/or avoid over-reliance risk. For other non-core supplies, we typically cooperate with a smaller number of suppliers to achieve economies of scale and secure competitive prices.

We typically enter into supplier framework agreements with our suppliers setting forth general terms that will be used in each purchase order. Depending on the actual production plan, our raw material and component purchases are made on a purchase order basis, and we specify the product type, quality standards, unit price, quantity, delivery timeline, product return policies and other items in each purchase order we send to our suppliers. Payment terms granted by our suppliers vary depending on a number of factors including the size of the transactions and the types of raw materials or components purchased. We usually settle payment with our suppliers within 180 days. We typically settle our trade payables by bank transfers and bank bills.

We may from time to time enter into strategic cooperative agreements with key suppliers, in order to strengthen the business relationships and further secure sufficient supplies of our quality raw materials and advanced components. Pursuant to such strategic cooperative agreements, we generally secure exclusive supply rights for advanced or patented components of such suppliers and co-develop or improve such components with them to be applied to our electric two-wheeled vehicles. Such strategic partnerships offer us advantages in pricing, priority in terms of production capacity, as well as access to new technologies. We have co-developed and improved advanced electric two-wheeled vehicle technologies and components with certain suppliers, and we believe such collaboration demonstrates suppliers' confidence in our research and development capabilities and prospects. For example, we collaborated with one supplier to develop and enhance the hub brakes used on our vehicles which offer reduced braking distance. Depending on the specific arrangement, the intellectual property rights of the cooperation results may be owned solely by us or the supplier or jointly owned by us and the supplier pursuant to the terms of the relevant agreements. For further details, see "– Research and Development – External Collaboration".

To the best of our knowledge and during the Track Record Period, save as disclosed in "Legal Proceedings and Compliance – Legal Proceedings", we have not been subject to any material product liability claims in respect of the raw materials, parts and components procured from our suppliers, nor have we received any material claims from consumers because of issues arising from raw materials procured from suppliers. We maintained product liability insurance applicable to our products and believe that our existing insurance coverage is adequate for our existing operations and is in line with industry standards. Pursuant to relevant insurance policies, we shall assign our right of recourse against responsible suppliers to the relevant insurance company in the event of product liability claims involving quality issues of parts and components. For details, see "– Insurance".

Major Suppliers

Our major suppliers are suppliers of lead-acid batteries and lithium-ion batteries, control units, magnetic steel and tires. In 2020, 2021 and 2022 and the four months ended April 30, 2023, purchase from our largest supplier in each period during the Track Record Period accounted for 8.1%, 9.8%, 10.4% and 14.4%, respectively, of our total purchase amount for the respective periods. For the same periods, purchase from our five largest suppliers in each period during the Track Record Period accounted for 17.4%, 24.0%, 31.7% and 29.8%, respectively, of our total purchase amount for the respective periods.

The following tables set forth the details of our five largest suppliers by purchase amount for each period of the Track Record Period.

For the year ended December 31, 2020

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Supplier Group A	Zhejiang-based subsidiaries of a company principally engaged in the production of lead-acid batteries, the securities of which are traded on the Hong Kong Stock Exchange	Lead-acid batteries, lithium-ion batteries	2005	15-48 days	166,445	8.1%
Supplier Group B	A Jiangsu based company and its Anhui subsidiary engaged in the R&D, production and sales of lithium-ion batteries	Lithium-ion batteries	2006	40-70 days	50,738	2.5%
Supplier C	A Zhejiang-based company engaged in the production and processing of non-ferrous metal products, motorcycle hubs, motorcycle accessories, etc.	Front and rear wheels	2009	40-70 days	47,993	2.3%
Supplier D	A Jiangsu-based company engaged in R&D, production, processing and sales of integrated circuit power devices and electronic products	Controller	2010	40-70 days	45,862	2.2%

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Fujian Yizhou	A Fujian-based company engaged in the R&D, production and sales of electric bicycles, motors, batteries and accessories.	Lead-acid batteries	2008	22-52 days	43,679	2.1%
					354,717	17.4%

For the year ended December 31, 2021

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Supplier Group A	Zhejiang-based subsidiaries of a company principally engaged in the production of lead-acid batteries, the securities of which are traded on the Hong Kong Stock Exchange	Lead-acid batteries, lithium-ion batteries	2005	15-48 days	297,530	9.8%
Supplier Group E	Subsidiaries of a Zhejiang-based company principally engaged in the production of batteries for electric vehicles, the securities of which are traded on the Shanghai Stock Exchange	Lead-acid batteries, lithium-ion batteries	2003	22-52 days	183,666	6.0%
Supplier Group B	A Jiangsu based company and its Anhui subsidiary engaged in the R&D, production and sales of lithium-ion batteries	Lithium-ion batteries	2006	40-85 days	108,718	3.6%

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Supplier D	A Jiangsu-based company engaged in R&D, production, processing and sales of integrated circuit power devices and electronic products	Controller	2010	40-85 days	81,572	2.7%
Supplier F	A Tianjin-based company engaged in the production and processing of inner and outer tires of automobiles, motorcycles and bicycles	Tires	2017	40-85 days	57,486	1.9%
					728,973	24.0%

For the year ended December 31, 2022

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Supplier Group E	Subsidiaries of a Zhejiang-based company principally engaged in the production of batteries for electric vehicles, the securities of which are traded on the Shanghai Stock Exchange	Lead-acid batteries, lithium-ion batteries	2003	22-52 days	415,560	10.4%
Supplier Group A	Zhejiang-based subsidiaries of a company principally engaged in the production of lead-acid batteries, the securities of which are traded on the Hong Kong Stock Exchange	Lead-acid batteries, lithium-ion batteries	2005	15-48 days	386,790	9.7%

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Supplier Group B	A Jiangsu based company and its Anhui subsidiary engaged in the R&D, production and sales of lithium-ion batteries	Lithium-ion batteries	2006	55-85 days	243,643	6.1%
Supplier D	A Jiangsu-based company engaged in R&D, production, processing and sales of integrated circuit power devices and electronic products	Controller	2010	55-85 days	118,652	3.0%
Supplier G	A Zhejiang-based company engaged in the sales of magnetic materials and rare earth functional materials	Magnetic steel	2014	55-85 days	97,010	2.4%
					1,261,655	31.7%

For the four months ended April 30, 2023

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Supplier E	A subsidiary of a Zhejiang-based company principally engaged in the production of batteries for electric vehicles, the securities of which are traded on the Shanghai Stock Exchange	Lead-acid batteries	2003	22-52 days	187,290	14.4%

Supplier	Background	Supply type	Year of commencement of business relationship with us	Credit terms	Purchase amount	Percentage of total purchase
					(RMB'000)	
Supplier Group A	Zhejiang-based subsidiaries of a company principally engaged in the production of lead-acid batteries, the securities of which are traded on the Hong Kong Stock Exchange	Lead-acid batteries, lithium-ion batteries	2005	15-48 days	109,330	8.4%
Supplier D	A Jiangsu-based company engaged in R&D, production, processing and sales of integrated circuit power devices and electronic products	Controllers	2010	55-85 days	39,702	3.0%
Supplier H	A Zhejiang-based company primarily engaged in R&D, production and sales of plastic parts and vehicle spare parts	Plastic parts and vehicle spare parts	2010	55-85 days	26,460	2.0%
Supplier Group I	Zhejiang-based companies engaged in the production and sales of chargers, displayers and other electronics in relation to electric two-wheeled vehicles	Chargers	2003	55-85 days	25,710	2.0%
					388,492	29.8%

Notes:

The following information is extracted from the latest annual reports, public business registrations or websites of the respective companies.

Supplier Group A comprises three private companies incorporated in the PRC in 2010, 2011 and 2018, respectively. Their parent company focuses on the supply of products to electric bike manufacturers in mainland China.

Supplier Group B comprises a private company incorporated in the PRC in 2003, which has a registered capital of RMB321.6 million. Supplier Group B also comprises a private company incorporated in the PRC in 2018, which has a registered capital of RMB2,877.6 million.

Supplier C is a private company incorporated in the PRC in 2003 and has a registered capital of RMB20 million.

Supplier D is a private company incorporated in the PRC in 2011 and has a registered capital of RMB55 million.

Supplier Group E comprises Supplier E, a private company incorporated in the PRC in 1998, and another private company incorporated in the PRC in 2004. Their parent company, which was incorporated in the PRC in 2003, has a registered capital of RMB972.1 million.

Supplier F is a private company incorporated in the PRC in 1996 and has a registered capital of RMB80 million.

Supplier G is a private company incorporated in the PRC in 2006 and has a registered capital of RMB10 million.

Supplier H is a private company incorporated in the PRC in 2010 and has a registered capital of RMB38 million.

Supplier Group I comprises a private company incorporated in the PRC in 2001, which has a registered capital of RMB11 million. Supplier Group I also comprises a private company incorporated in 2013, which has a registered capital of RMB5 million.

Fujian Yizhou, one of our top five suppliers in 2020, was owned as to 27.45% from 2008 to February 2022 and 67.45% from February 2022 and up to the Latest Practicable Date by Lin Pingzai, one of our top five customers during the Track Record Period. Fujian Yizhou stopped production in July 2020 due to its unsatisfactory performance. In January 2022, our Group entered into an equity transfer agreement pertaining to the disposal of our equity interest in Fujian Yizhou. See "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization" for further details. Revenue generated from sales to Lin Pingzai in the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2023 accounted for 2.0%, 3.5%, 4.0% and 2.0% of our total revenue for the same periods, respectively. Save as disclosed above, to the best knowledge of our Directors, none of our top five suppliers during the Track Record Period is also our customers.

Supplier Group B, one of our five largest suppliers during the Track Record Period, comprises Phylion Battery Co., Ltd. (星恒電源股份有限公司) which is owned as to 0.5% by Ms. Ni Boyuan, the daughter of Mr. Ni and Ms. Hu, who are our Controlling Shareholders and executive Directors.

Save as disclosed above, as of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who owned or to the knowledge of Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

QUALITY CONTROL

Product quality is vital to our business, since any potential quality defect may cause significant risks to consumers. Highly reliable products also foster consumer satisfaction and confidence in our brand name which in turn encourages brand loyalty. As such, we maintain rigorous quality assurance policies and processes to ensure that our products conform to our internal product specifications and national and industry standards.

We obtained ISO9001 certification for our quality management system in 2007, a standard and guideline relating to quality management systems and representing an international consensus on good quality management practices, and subsequently renewed such certification for our Zhejiang Production Plant, Shandong Production Plant and Guangxi Production Plant in March 2022, June 2022 and January 2021, respectively. Following our development, we have continuously improved our quality management system. In 2008, we established a testing center which received CNAS Accredited Laboratory (中國合格評定國家認可委員會認可實驗室) certificate in 2019 by China National Accreditation Service for Conformity Assessment (中

國合格評定國家認可委員會) and is capable of carrying out a wide range of rigorous testing on over 200 major items and 1,100 minor items of electric two-wheeled vehicles throughout the entire product development and production process with an aim to minimize any elements that could compromise safety, including 300 hour dynamometer testing on motors, 2,000 times of charge and discharge testing on batteries, fire redundant tests as well as extensive testing on product usage in simulated real-life and extreme settings. As of April 30, 2023, we had a quality control workforce of 381 personnel. Our quality control workforce is responsible for formulating and implementing our quality control policies, and conducting inspections of raw materials, production processes and finished products to identify quality defects. We also collaborate with external parties to enhance our quality control process. For example, we entered into a technical service agreement with a professional testing service provider to jointly establish testing standards for electric two-wheeled vehicles in terms of product marketability, durability and key component life.

Quality Control of Procurement

We only purchase raw materials and components from qualified suppliers who have passed our quality and reliability assessment. We also require suppliers to provide us with relevant certificates. In accordance with our internal guidelines, our quality control staff inspect our raw materials and components for their appearance, specifications and functionality and our testing center conducts tests on randomly selected samples to ensure that the quantity and quality of the raw materials and components meet our specifications before they are accepted. Our quality control system has been designed to identify and address defective or sub-quality raw materials and components as early in the production process as possible.

Quality Control of Production

We follow all relevant standards for the production of our products, including the national mandatory standards and our stricter internal standards. We are required to obtain CCC quality assurance certificates for each product model before selling. Our product certification department are in charge of filing applications for CCC quality assurance certificates with competent authorities and submit product prototypes and other relevant documents to designated testing institutions for testing. As of the Latest Practicable Date, all of our product models in the market have obtained their respective CCC quality assurance certificate as required by relevant laws and regulations.

We have established comprehensive operating procedures to conduct quality control throughout the entire production process in order to ensure that the quality of our products meets the requirements. We conduct regular equipment inspections and maintenance to ensure that our production lines and production process is operating properly. We regularly check our staff members' compliance with our internal operation standards. In addition, we perform routine inspections on semi-finished products and set quality checkpoints during the key production process to ensure consistent quality of our products. We have also devoted substantial resources to streamline our production process which we believe will enable us to enhance our quality control capabilities by reducing human involvement and error.

Quality Control of Finished Products

Our quality management system extends to the quality of products in the storage, delivery and sales stages so as to ensure that our products are stored, delivered and sold in good condition. Our finished products are packaged and stored in designated zones within our production facilities and warehouses before they are delivered to our customers. We conduct random out-of-box inspection on our finished products. Additionally, we take safety measures to minimize fire hazards, water damage and other similar risks to our finished products.

LOGISTICS AND INVENTORY MANAGEMENT

Warehousing and Logistics

We primarily utilize warehouses located at our production facilities as well as warehouse leased from third parties in various regions to meet our storage needs and ensure the delivery of our products across our distribution network efficiently and economically. As of the Latest Practicable Date, other than warehouses within our production facilities, we had 13 warehouses located across seven provinces and two municipalities including Shanghai, Jiangsu, and Hubei.

We procure delivery services from third-party logistics service providers. As of April 30, 2023, we collaborated with five third-party logistics service providers. We select logistics service providers based on their track record, geographic coverage, management ability and price. Our arrangements with third-party logistics service providers allow us to provide fast and efficient delivery services of our products, reduce our capital investment and reduce the risk of incurring liability for traffic accidents, delivery delays or loss. Once our logistics service providers confirm receipt of the products to be delivered, the risks relating to the transportation and delivery of our products are transferred to the logistics service providers. During the Track Record Period, we did not experience any material disruption in the delivery of our products or suffer any loss as a result of delays in delivery or poor handling of goods.

Inventory Management

Our inventories primarily consist of raw materials, work in progress and finished goods. In 2020, 2021 and 2022 and the four months ended April 30, 2023, our inventory turnover days were 30.0 days, 35.9 days, 36.0 days and 35.5 days, respectively. See "Financial Information – Selected Key Balance Sheet Items – Inventories" for details.

We use our ERP system to track our inventory level, which enables us to monitor our inventory on a timely basis in order to maintain sufficient levels of raw materials, finished and semi-finished products. We procure raw materials and plan our production activities based on our historical sales, sales forecasts as well as the actual sales activities and purchase orders. We communicate our estimated demand to raw material suppliers to plan ahead and store sufficient raw materials and components. Subject to fluctuations during off-season and peak seasons and depending on the type of raw material and its availability, we usually maintain a minimum level of inventory for certain main raw materials which is the estimated amount we consider necessary to meet any increase in demand for products, and to ensure that there are no disruptions in supply of products. For example, we maintain different levels of plastic parts during peak seasons depending on estimated monthly demands and typically maintain three- to five-day's worth of general-purpose components and three-day's worth of batteries. Meanwhile, in order to ensure the stability and efficiency of supply, we are actively discussing with our suppliers for them to maintain transit warehouses located within one kilometer from our production facilities where they would store their products.

Leveraging various data feeds, we are able to access information of many of our distributors, including their sales volume, selling prices, estimated volume of inventory on their hand and turnover rate. With such information, we are able to: (i) monitor sales performance of distributors, (ii) understand latest market demand for our products, (iii) prepare sales forecasts and production plans, and (iv) maintain optimal levels of inventory at our end which can satisfy market demand in a timely manner without increasing the risk of inventory obsolescence.

SALES AND DISTRIBUTION

Overview

During the Track Record Period, we sold our products primarily in mainland China through our network of offline distributors, and to a much less extent, in certain other countries and regions, including Thailand, Indonesia and the Philippines. We also distribute our products through online channels comprising our self-operated online stores on major e-commerce platforms and social media platforms. Furthermore, with the rise of shared economy and on-demand e-commerce, especially those that utilize electric two-wheeled vehicles, we customized and manufactured electric two-wheeled vehicles for a number of leading shared mobility service providers and on-demand e-commerce brands, and other corporate and institutional customers.

The table below sets forth a breakdown of revenue from sales of our products by channel during the periods indicated:

	Year ended December 31,						For the four months ended April 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Offline channels	1,664,844	70.7	2,771,684	82.4	4,245,048	89.8	1,057,484	92.3	1,455,681	89.3
Online channels	97,550	4.1	108,768	3.2	271,697	5.7	24,333	2.1	72,041	4.4
Corporate and institutional clients	554,037	23.5	421,003	12.5	96,427	2.1	17,897	1.6	94,614	5.8
Overseas distributors	39,493	1.7	63,252	1.9	114,597	2.4	45,908	4.0	7,561	0.5
Total	2,355,924	100.0	3,364,707	100.0	4,727,769	100.0	1,145,622	100.0	1,629,897	100.0

The following table sets forth a breakdown of our gross profit and gross profit margins of our products (excluding provision of services) by sales channels for the periods indicated:

	For the year ended December 31,						For the four months ended April 30,			
	2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)						*(unaudited)*			
Offline channels	167,489	10.1	261,430	9.4	401,276	9.5	69,048	6.5	137,245	9.4
Online channels	17,913	18.4	18,468	17.0	54,674	20.1	5,508	22.6	20,790	28.9
Corporate and institutional clients	64,539	11.6	35,369	8.4	14,406	14.9	1,402	7.8	9,146	9.7
Overseas distributors	13,875	35.1	18,867	29.8	35,721	31.2	12,176	26.5	1,752	23.2
Total	**263,817**	**11.2**	**334,133**	**9.9**	**506,078**	**10.7**	**88,134**	**7.7**	**168,933**	**10.4**

For detailed analysis, see "Financial Information – Description of Key Components of Our Results of Operations – Gross Profit and Gross Profit Margin."

Offline Channels

In line with industry norm, we primarily sell our products through our network of offline distributors to effectively cover the mainland China market. According to Frost & Sullivan, offline distribution channels are the most important distribution channels for electric two-wheeled vehicles in mainland China. To a substantially lesser extent, we also sold a few of our products directly to consumers, including our employees, mainly during special occasions such as anniversary of our production plants or clearing of products that were used in display. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from direct sales was approximately RMB5.2 million, RMB1.6 million, RMB1.0 million, RMB0.1 million and RMB0.1 million, respectively. We typically sell our products to local distributors who further sell our products directly to end customers or sub-distributors. As of April 30, 2023, we cooperated with 1,314 offline distributors in mainland China who controlled over 11,400 retail outlets in 319 cities across 30 provincial-level administrative regions in mainland China. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from offline channels was RMB1,664.8 million, RMB2,771.7 million, RMB4,245.0 million, RMB1,057.5 million and RMB1,455.7 million, respectively, representing 70.7%, 82.4%, 89.8%, 92.3% and 89.3% of our revenue from sales of products for the same periods.

The map below illustrates the number of our offline distributors as of April 30, 2023:

The table below sets forth a breakdown of revenue from offline channels by geographical regions for the periods indicated:

	Year ended December 31,						For the four months ended April 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Eastern China	884,198	53.1	1,517,639	54.8	2,508,014	59.1	571,498	54.0	728,768	50.1
Central and southern China	463,614	27.8	756,718	27.3	1,090,314	25.7	300,338	28.4	432,091	29.7
Southwestern China	87,193	5.2	134,292	4.8	250,946	5.9	74,059	7.0	125,391	8.6
Northern China	117,044	7.0	217,198	7.8	218,029	5.1	58,096	5.5	102,103	7.0
Other regions	112,795	6.8	145,837	5.3	177,745	4.2	53,493	5.1	67,328	4.6
Total	1,664,844	100.0	2,771,684	100.0	4,245,048	100.0	1,057,484	100.0	1,455,681	100.0

We consider a number of selection and evaluation criteria in selecting offline distributors while taking regional differences into account, including, among others, their industry experience, market coverage, reputation and credibility, financial conditions, management capabilities, legal compliance status, understanding of our brand concept and business philosophy, size and quality of employee team, and warehousing and logistics capabilities. Only candidates that pass our selection and evaluation criteria will be qualified as our contracted offline distributors. Set forth below are certain details of our selection and evaluation criteria for distributors.

- *Licenses and certifications*. Distributors must have obtained business license or otherwise have been approved by the relevant authorities to conduct business in the sales of electric two-wheeled vehicles.

- *Industry experience*. In order to ensure the sustainable and healthy development of our brand and business and avoid cannibalization, we set strict regional designated distribution areas and sales experience requirements in the process of distributor selection.

- *Financial conditions.* Distributors shall have sufficient start-up and working capital to support their operating activities and continuous operation.

- *Business premises.* We require distributors to have their own properties or leased properties to be used as their retail outlets to ensure certain storefront advantages.

- *Brand concept and service awareness.* Distributors shall abide by our regulations in their operations, understand and recognize our brand concept and business philosophy. At the same time, distributors shall have the motivation and awareness to provide warm and thoughtful service to consumers and shall be able to improve the shopping experience of consumers under our guidance.

- *Administrative penalties.* We pay close attention to the nature, severity and results of distributors' past legal compliance status. Past administrative penalties, if any, shall have been properly settled and distributors must recognize the importance of operating in compliance with laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we have maintained good business relationships with our offline distributors. The table below sets forth the movement in number of our offline distributors during the periods indicated:

	For the year ended December 31,			For the four months ended April 30,
	2020	**2021**	**2022**	**2023**
Number of distributors at the beginning of the period	1,222	1,114	1,108	1,236
Number of new distributors[1]	251	354	375	139
Number of terminated distributors[2]	(359)	(360)	(247)	(61)
Net increase/(decrease) in distributors	(108)	(6)	128	78
Number of distributors at the end of the period	1,114	1,108	1,236	1,314

Notes:

1. Number of new distributors represents those distributors that made purchases from us for the year/period indicated but did not purchase from us for the year immediately preceding the year/period indicated.

2. Number of terminated distributors represents those distributors that we directly terminated during the year/period indicated and those distributors that made purchases from us for the year/period indicated but did not purchase from us for the year/period immediately subsequent to the year/period indicated.

We have a long-term and stable relationship with our major offline distributors. As of April 30, 2023, we had business relationships with our five largest offline distributors in mainland China for each period of the Track Record Period for an average of approximately ten years. In 2020, 2021 and 2022 and the four months ended April 30, 2023, revenue generated from our five largest offline distributors in mainland China in each period during the Track Record Period amounted to approximately RMB121.9 million, RMB332.9 million, RMB534.4 million and RMB168.5 million, respectively, representing approximately 5.1%, 9.7%, 11.2% and 10.2%, respectively, of our revenue for the respective periods. In 2020, 2021 and 2022 and the four months ended April 30, 2023, revenue generated from our largest offline distributor in each period during the Track Record Period amounted to approximately RMB47.7 million, RMB119.0 million, RMB189.0 million and RMB40.0 million, respectively, representing approximately 2.0%, 3.5%, 4.0% and 2.4%, respectively, of our revenue for the respective periods. The increase in revenue contribution of the five largest distributors in each period during the Track Record Period was primarily because, as our strategy, we tend to engage high-quality distributors with strong and stable sales performance and have provided customized strategies tailored to specific local market conditions to help further increase their sales.

We actively manage our offline distributors and determine whether to continue our contractual relationships with them based on their performance. During the Track Record Period, we engaged 251, 354, 375 and 139 new distributors in 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively. During the same period, we terminated distribution relationships with 359, 360, 247 and 61 distributors in 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively, primarily due to (i) our channel consolidation strategy whereby we replaced certain distributors with ones with larger scale or better performance. In this process, some of the distributors that were replaced became sub-distributors of new first-tier distributors; (ii) their subpar performance; (iii) our termination of agreements with distributors who violated our distribution agreements or policies including unauthorized alteration of our products and sales of competitive products in Luyuan branded retail outlets; and (iv) closure of business due to poor management or other personal reasons. Revenue attributable to such terminated distributors amounted to approximately RMB78.5 million, RMB122.3 million, RMB77.1 million and RMB1.0 million, respectively, in 2020, 2021 and 2022 and the four months ended April 30, 2023. During the Track Record Period and up to the Latest Practicable Date, we had no material unresolved disputes or lawsuits with these terminated distributors. In line with industry practice, for distributors that have terminated their business relationship with us, if they still have inventory remaining, it is our policy that we do not accept their product return; instead, we usually coordinate with other newly engaged distributors in the relevant region to take over their remaining inventory, if any.

Distribution Agreements with Offline Distributors

We typically enter into written distribution agreements with our offline distributors. During the Track Record Period, each distributor was assigned designated account(s) in our distributor management system and orders are recorded in such system from ordering to settlement. Set out below are the key terms of standard distribution agreements we enter into with our offline distributors:

Duration	The duration of the distribution agreements is one year and are renewable subject to our evaluation of, among other things, distributor's performance.
Exclusivity	Our distributors are prohibited from selling any competitive products sourced from other suppliers in *Luyuan* branded retail outlets.

Charge of training and other service fees

We charge to our distributors a one-off fixed service fee for each retail outlet for site selection and training services we provide to them and their sub-distributors mainly related to product display and repair of our products. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from such services amounted to RMB22.4 million, RMB53.0 million, RMB55.3 million, RMB16.3 million and RMB21.5 million, respectively.

Designated distribution area

Distributors are not allowed to sell our products outside the designated distribution area. Unless otherwise authorized, distributors are not allowed to sell our products on online channels.

Minimum purchase requirements

We set annual and monthly minimum purchase requirements for distributors taking into account their size, designated distribution area, their historical sales records and our estimates of local demand. Our minimum purchase requirements do not constitute mandatory purchase obligation for distributors, but mainly serve as reference for us to evaluate the performance of distributors and provide rebates to distributors while offering us the flexibility to adjust our sales arrangement with distributors. Failure to meet monthly minimum purchase targets for two consecutive months or accumulatively three months in a year might result in adjustment of the designated distribution area or termination the distributor relationship. Our distributors typically sell our products to end customers directly or to sub-distributors. To our best knowledge, distributors' procurement from us for sales to end customers are typically not on a back-to-back basis while, with respect to sales to sub-distributors, some distributors purchase from us after receiving orders from sub-distributors but also procure from us based on their estimations of local demand and their expansion plans.

Rebates

To motivate distributors, we offer rebates to distributors, under certain circumstances, such as when their total purchase amount exceeds a predetermined amount in a period or when certain other conditions are met, or when they participate in our periodical marketing and promotion plans. In January 2022, we upgraded our sales rebates policies with a loyalty program, under which distributors can accumulate rebates in the form of loyalty points for purchases they make that entitle them to discounts on future purchases of our products. Our sales rebates are deducted from our revenue. For further details of the relevant accounting policy, see "Financial Information – Critical Accounting Policies, Estimates and Judgements – Revenue Recognition." In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, approximately RMB147.7 million, RMB281.3 million, RMB478.5 million, RMB117.6 million and RMB182.1 million, or 8.9%, 10.1%, 11.3%, 11.1% and 12.5% of our revenue from offline channels, were deducted from our revenue. According to Frost & Sullivan, it is an industry norm for electric two-wheeled manufacturers to offer sales rebates as incentives to its distributors in order to encourage distributors who have achieved good sales performance, or as part of manufacturers' marketing and sales promotion initiatives and the Group's rebates offered to offline distributors during the Track Record Period as percentages of revenue from offline channels was generally in line with industry norm.

Anti-corruption and anti-bribery obligations

Distributors and their employees are prohibited to, for any reason and in any form, directly or indirectly provide any rebate, commission or object etc., to our employees or their relatives. We deem such actions as commercial bribery and, in serious cases, may terminate the distribution agreement.

Transportation and logistics

Distributors are generally required to arrange transportation of products from our warehouses to their retail outlets. Upon the requests of the distributors, we may arrange third party logistic service providers to deliver the products with the logistics expenses born by the distributors. We bear the risks before the products are handed to the distributors or the logistics service providers.

Recommended wholesale and retail price	We set guidance on wholesale and retail prices for distributors sales to sub-distributors and end customers through our distributor management system.
Product Modification	Distributor shall not modify any part or component of our vehicles, including but not limited to replacing/changing the vehicle motor, vehicle controller and other accessories.
Management of retail outlets	Distributors shall operate retail outlets in accordance with our guidelines.
Return of products	Except for products with material quality defects, products are not allowed to be returned once the distributor or logistics service provider has confirmed receipt of the goods. We have not experienced any material product returns during the Track Record Period and up to the Latest Practicable Date. We believe that this product return policy, coupled with our general requirement of payment-before-delivery, discourages distributors from over-ordering and prompts them to purchase our products based on actual demands and avoid large inventory accumulation which helps us avoid channel stuffing.
After-sale services	Distributors are responsible for after-sales services including repairing and replacing products pursuant to product warranties. The scope of the warranty is specified in the product brochure. We are responsible for providing parts and components to distributors for them to carry out repairs pursuant to product warranties.
Termination	We are entitled to terminate the distribution agreement if the distributor or its sub-distributors materially breaches the contract, or if the distributor continuously fails to meet the minimum purchase target.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any of our distributors committing any material breach of their distribution agreements or any material claims or non-compliant incidents regarding our distributors.

Management of Offline Distributors

We proactively manage our distributors to ensure healthy and orderly distribution networks, mitigate cannibalization among distributors and distribution channels, avoid channel stuffing and to protect our brand and reputation. Set forth below are key aspects of our distributor management policies and measures.

- *Geographic exclusivity.* We grant specific geographic regions to our offline distributors so that we can reduce the degree of competition between different offline distributors. We take into account a number of factors when determining designated geographic regions for offline distributors, including geographic location of the relevant retail outlets, population density, consumer purchasing power and competition in the surrounding area. The distribution agreements we signed with distributors generally specify the designated geographic areas. Our distribution agreements generally prohibit the distributors from selling the products outside the respective designated geographical regions or online channels;

- *Periodic and ad hoc on-site inspections.* We leverage a variety of measures to inspect and monitor our distributor and sub-distributor retail outlets in addition to real time monitoring through our distributor management system. Our regional sales teams conduct scheduled and occasional unannounced on-site inspections of our distributor and sub-distributor retail outlets to monitor business operations of distributors and sub-distributors including sales performance, inventory level, service quality and compliance with our policies and guidelines.

  We divide on-site inspections into routine inspections for all retail outlets and special inspections for retail outlets with abnormal or unsatisfactory sales performance. We require all retail outlets to be inspected at least once every three months, whether through on-site inspections by our regional sales teams or third parties we engage, remote inspections through surveillance cameras or review of site photos. For retail outlets with abnormal or unsatisfactory sales performance discovered through our distributor management system, we perform on-site inspection at least once every month. We require our sales managers to visit at least ten distributor retail outlets per month. In 2020, 2021 and 2022 and the four months ended April 30, 2023, we had approximately 120, 200, 270 and 270 sales managers that performed this task, respectively. To strengthen our management over distributors, we also conduct remote inspections and over 3,700, or 33% of our retail outlets as of April 30, 2023 have installed surveillance cameras which we have access to from our headquarters. Most of the retail outlets opened after 2019 with strong sales performance have installed such surveillance cameras, and we are in the process of installing surveillance cameras for the remaining retail outlets. For the retail outlets with surveillance cameras, our operation teams are able to more conveniently monitor a variety of aspects including product compliance, product display and uniformity of decorations, and rate the retail outlets accordingly. For the retail outlets without surveillance cameras, (i) we carry out routine and special on-site inspections as described above, (ii) we require distributors to complete a self-check list and submit photos for us to inspect; and (iii) we engage external third parties to carry out on-site inspections and submit photos for us to inspect. We may also require distributors to carry out on-site inspections of retail outlets operated by their sub-distributors. Non-compliant distributors are required to address all issues identified in a timely manner.

- *Monitoring of sales and inventory records.* As of the Latest Practicable Date, all of our distributors and sub-distributors have access to and have adopted our in-house developed distributor management system which provides transparency of sales activities of distributors and sub-distributors and enables us to monitor sales data and estimate the inventory levels of distributor retail outlets and, to a certain extent sub-distributor retail outlets as well, to avoid accumulation of inventory. However, the effectiveness of this system is also subject to the continuous and prompt update of information of distributors and subdistributors.

  While we encourage distributors and sub-distributors to enter sales information in a timely manner and as complete as practicable, we specifically ask and train our distributors (and ask them to encourage and train their sub-distributors) to use the e-warranty card function in our distributor management system when selling our products. Specifically, when a customer purchases our vehicle, sales staff of the retail outlet may introduce the e-warranty card to customers and, if the customer opts for the e-warranty card, collects the customer's information upon his/her consent and enters the same in our system. In order to activate the e-warranty, the sales staff must also enter the corresponding vehicle's information in our system. Compared to traditional paper warranty cards which are easy to lose, e-warranty cards are more convenient for consumers. In addition, e-warranty cards are automatically recognized in our systems, thereby increasing efficiency and accuracy when recording sales and purchase data. In 2020, 2021 and 2022 and the four months ended April 30, 2023, approximately 0.9 million, 1.1 million, 1.7 million and 0.6 million consumers opted for e-warranty cards, respectively. Assisted by comparing the sales and purchase data of distributors (or sub-distributors) in a given period against their performance in a previous comparable period or performance of other comparable distributors, together with information collected by our sales managers through on-site and remote inspections, we are able to generally estimate the inventory levels within our sales channels. We check the estimated inventory levels of distributors and sub-distributors against sales records and the size of the respective retail outlets to determine whether their inventory is at reasonable levels and whether there is any excessive accumulation of inventory by distributors. In the event that we identify any abnormal sales or inventory data, we actively follow up with relevant retail outlets and may arrange on-site inspections. During the Track Record Period and up to the Latest Practicable Date, we have not identified any abnormal sales or inventory data which required us to suspend sales to distributors. Going forward, we plan to further encourage distributors and sub-distributors to use the e-warranty card function by linking such practices with our distributor performance evaluation criteria, pursuant to which only sales with e-warranty cards will be recognized for the purpose of performance evaluation and grant of rebates.

  Our IT department is also in the process of developing a system which better supports real time sales data recording to better manage the inventory level and sales information of distributors and sub-distributors.

In addition to our periodic and ad hoc inspections, either through on-site visits by our regional sales teams, external third parties, surveillance cameras or review of site photos, and monitoring through our distributor management system, we also control and manage channel stuffing risks among our distribution network through distributorship agreements and a number of distributor management policies and measures, including (i) we generally require payment before delivery from our distributors and, to the best of our knowledge, our distributors also generally deliver products to sub-distributors on a payment-before-delivery basis; (ii) save for major quality defects, we do not allow products return and typically only provide repair or exchange of defective products, and, to the best of our knowledge, our distributors typically adopt the same approach when making sales to their sub-distributors, and (iii) we provide recommendations on product pricing as well as support on sales and marketing to our distributors, especially those with abnormal or unsatisfactory sales performance, to help them avoid inventory accumulation. As such, we believe that our sales to distributors correspond to actual end-customer demand and therefore our products are at low risk of channel stuffing in our distribution network. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any incidents of material channel stuffing.

For illustrative purpose only, the table below shows the inventory level and turnover days as of the dates and for the years/periods indicated.

	As of/For the year ended December 31,			As of/For the four months ended April 30,	As of/For the seven months ended July 31,
	2020	**2021**	**2022**	**2023**	**2023**
Inventory level (*'000 units*)	348	448	624	726	775
Turnover days	N/A	96	88	107	N/A

Notes:

1. The figures in the table above are for illustrative purpose only as they are based on reports and confirmations from distributors and/or sub-distributors within our network (as of April 30, 2023 for the Track Record Period and July 31, 2023 for the seven months ended July 31, 2023) provided to us upon our request but not verified by us and does not cover information of retail outlets of distributors or sub-distributors that have been terminated as of prior to the reference dates.

2. Turnover days are calculated by the average of the beginning and ending balance of inventories of retail outlets of the relevant year/period divided by sales volume of our offline channels multiplied by 365 days for the years ended December 31, 2020, 2021 and 2022, by 120 days for the four months ended April 30, 2023 and by 210 days for the seven months ended July 31, 2023.

3. Turnover days for the year ended December 31, 2020 was not applicable as the balance of inventories at the beginning of 2020 was not available; turnover days for the seven months ended July 31, 2023 were not available as sales volume of our offline channels for the corresponding period was not available.

Based on the inventory level above and that our offline network in mainland China covered over 11,400 retail outlets as of April 30, 2023, we estimate that each retail outlet possessed approximately 60 to 70 vehicles as of April 30, 2023.

To mitigate the risk of cannibalization among our distributors, we clearly delineate their geographic coverage and our distribution agreements explicitly prohibit our distributors from selling our products outside the respective designated geographical regions. Our distributors are required to ensure their sub-distributors operate within their designated geographical regions. We are entitled to terminate the distribution agreements with those distributors that repeatedly engage in cannibalization and require distributors to terminate their relationships with sub-distributors that violate our policies. In addition, each of our vehicles is assigned a unique vehicle frame code (車架號) before being delivered to distributors. This code allows us to trace back to the relevant distributor when conducting on-site inspections and thereby deters cross-region sales. We believe that distributors of electric two-wheeled vehicles, as compared to distributors of other types of retail products (such as daily chemicals that are much smaller in size), do not have strong incentive to engage in cannibalization as the sales of electric two-wheeled vehicles in any region typically requires an established physical storefront and warehouse to display and store the vehicles which significantly increases their costs. We also leverage the e-warranty card function of our distributor management system that only allows the entering of sales information for products within their designated geographic region to further minimize risks of cannibalization. We are able to detect material cannibalization by following up with abnormalities between purchase and sales data of distributors through on-site inspections. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material incidents of cannibalization among our distributors and sub-distributors.

We have a seller-buyer relationship with our distributors and revenue is recognized when the ownership of our products has been transferred to our distributors. We do not rely on any of our distributors individually. To the best knowledge of our Directors, substantially all of our distributors are Independent Third Parties. Save as elaborated under the paragraph headed "– Credit Policies and Financial Assistance to Distributors" below, during the Track Record Period, a number of our employees or former employees were shareholders or key personnel of, or were related to, a total of four distributors. Our Directors confirm that the sales to such distributors were conducted on an arm's length basis on normal commercial terms which were fair and reasonable and treated such distributors in an equal manner as the way we treat other independent distributors. During the Track Record Period, such distributors contributed less than 1.9% of our revenue generated from sales of products to offline channels. Our Directors also confirm that with respect to employee distributors, we have either ceased distribution relationships or terminated employment with relevant employees as of December 31, 2021. To the best of our Director's knowledge, none of these employee distributors have any past or present relationship (including, without limitation, shareholding, family, business or trust relationship), transaction (including, without limitation, financing), agreement, arrangement or understanding (whether express or implied) with our Company, its subsidiaries, shareholders, directors, senior management, customers, suppliers or subcontractors, or any of their respective associates, except for being employee or former employees of our Group and in the capacity as a distributor of our Group. In addition, we have adopted the following measures to continuously improve our corporate governance in terms of independence of distributors and sub-distributors:

- we prohibit employees to engage in any business collaboration with our Group either in his/her personal capacity or through entities controlled by him/her;
- we request each newly hired employee to sign a form of declaration of interests confirming their independence from our distributors and sub-distributors; and
- our human resource department performs background checks on our distributors and sub-distributors (to the extent of available information on sub-distributors provided by distributors) on a sampling basis to ascertain if there is any relationship between distributors/sub-distributors and our employees.

Distributor retail outlet support and service

During the Track Record Period, our distributors typically cover multiple points of sales directly or through sub-distributors within their respective designated regions. During the Track Record Period, the number of retail outlets within our distribution network was over 5,400, 7,800, 9,800 and 11,400, respectively, as of December 31, 2020, 2021 and 2022 and April 30, 2023. We require distributors and sub-distributors to distribute our products through retail outlets only.

Our sales and marketing team is responsible for managing and supporting our distributor retail outlets, which include, among other things, (i) soliciting and selecting potential distributor candidates; (ii) ensuring their compliance with the relevant distributorship agreements including the adoption of our retail outlet decoration, product display and pricing guidelines; and (iii) monitoring and conducting on-site inspections of distributor retail outlets. Set forth below are key distributor management measures and support and services we provide to our distributors in connection with distributor retail outlet management.

- *Assessment of retail outlet locations.* Prior to engagement of potential distributors, our sales and marketing team assists potential distributors to identify potential retail outlet sites. Our sales and marketing team considers a number of factors including geographic location, population density, consumer purchasing power and competition in the surrounding area. Such assistance helps our distributors make informed decisions on their site selection processes and also helps us manage competition between our distributors.
- *Retail outlet decoration and product display.* To provide standardized shopping experiences and deliver a consistent brand image to end-customers, we directly manage the decoration and refurbishment of retail outlets and have borne the relevant decoration and refurbishment costs since July 2019. For retail outlets that are relatively smaller in scale, we typically provided them with the necessary decorative supplies and materials for

them to handle decoration themselves. For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2023, decoration costs we bore amounted to RMB55.4 million, RMB123.7 million, RMB132.0 million and RMB46.4 million involving approximately 730, 2,350, 3,440, 1,530 retail outlets, respectively. The average decoration costs of a retail outlet amounted to approximately RMB76 thousand, RMB53 thousand, RMB38 thousand and RMB30 thousand for the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively, calculated by dividing the amount of decoration costs we bore by the number of retail outlets decorated in the year/period. As of December 31, 2020, 2021 and 2022 and April 30, 2023, prepayment of decoration costs recorded under other receivables and prepayments of the Group amounted to RMB0.6 million, RMB87.4 million, RMB155.3 million and RMB181.2 million, respectively, among which prepayment of decoration costs attributable to sub-distributors amounted to RMB0.4 million, RMB46.5 million, RMB96.0 million and RMB113.0 million as of the same dates, respectively. We also provide retail outlet decoration and product display guidelines to ensure that our retail outlets continuously adopt uniform designs, appearance, decoration, layout and color schemes. Set out below are the key terms of the decoration support agreements we entered into with relevant distributors and the relevant sub-distributors where applicable:

Duration	Generally three to five years, the relevant distributor or sub-distributor is required to keep the decorations in place throughout.
Decoration cost	We pay for the decoration of the retail outlets in full on behalf of the relevant distributors and sub-distributors, which is determined based on factors including size and geographical location of the retail outlets, condition of the retail outlets before decoration and quotation of the decoration companies.
Notification of decoration progress	The relevant distributor or sub-distributor shall within five days after the decoration is completed provide us with detailed photos and confirmation receipts evidencing completion, otherwise, the relevant distributor or sub-distributor shall return 20% of the total decoration fees for each month of delay.
Exclusivity	Relevant distributors and sub-distributors are prohibited from selling any competitive products sourced from other suppliers in the decorated retail outlets.

Minimum sales requirements	We generally set minimum sales requirements on sales volume for the duration of the agreement taking into account the decoration costs we bear and the estimated annual sales of the retail outlet. During the Track Record Period, the vast majority of minimum sales requirements for a retail outlet ranged between 100 to 1,000 vehicles per year for the term of the decoration support agreements. Failure to meet the sales commitment constitutes breach of agreement, in which case the distributor shall return part of decoration costs borne by us in proportion to the unfulfilled portion of its minimum sales commitment.
Management of retail outlets	Distributors/sub-distributors shall maintain the appearance, layout and brand presentation at their retail outlets by keeping the decorations in place. They shall ensure the safety of the retail outlets, install relevant devices such as inspection cameras and smoke detectors, purchase relevant insurances and actively participate in promotional events.
Events of default	Events of default under the decoration support agreements include, among others, (i) change or remove of decorations without authorization and (ii) arbitrarily close the retail outlet or breach of exclusivity. If an event of default occurs and is not rectified, we are entitled to damages commensurate to the total amount of decoration costs borne by us and suspend all relevant rebates. Distributors shall assume joint and several liability for all amounts due from their relevant sub-distributors.

According to Frost & Sullivan, the decoration costs of a new urban retail outlet generally range from RMB80 thousand to RMB100 thousand while flagship stores at premium locations could reach RMB250 thousand. In addition, the decoration costs of retail outlets located in counties, suburbs or rural regions generally range from RMB20 thousand to RMB60 thousand. During the Track Record Period, with an aim to develop county and suburb markets, many of the retail outlets that received our decoration support were located in counties or suburbs which require relatively simple decorations. Considering the minimum sales requirement (generally 100 to 1,000 vehicles per year for the term of the decoration support agreements), average selling price and gross profit margin of our products, we believe our profit attributable to the minimum sales requirements is able to cover the decoration costs we bear.

Despite the relatively thin gross profit margin of electric two-wheeled vehicles and the long payback period, according to Frost & Sullivan, it is common practice in the industry to settle decoration costs on behalf of distributors and sub-distributors and the terms of our decoration support agreements are in line with industry norm. This arrangement helps distributors and sub-distributors avoid bearing significant upfront costs before generating sales, which allows for faster distribution network expansion for electric two-wheeled vehicle manufacturers. In return, distributors and sub-distributors commit to minimum sales volumes and maintaining retail outlets exclusive to our products. This approach helps us stay competitive and benefit in the long run from increased brand visibility and distribution network expansion.

- *Training.* We place great emphasis on the training of retail outlet staff and provide our distributors with training on a variety of topics, including our brand history, brand image, marketing strategies, product knowledge and repair and maintenance skills. We also provide periodical training to our distributors to help them understand our distribution policies such as prohibition of cannibalization.

- *After-sale services.* we maintain telephone and online channels to answer distributors' questions or troubleshoot problems on issues such as product quality, technical difficulties, product return and exchange, and handling customers' complaints.

We believe our support and services to distributors and their sub-distributors have strengthened our relationships with them and helped us maintain their loyalty. We may also benefit from word-of-mouth references from our existing distributors to attract potential distributors.

Sub-distributors

In line with industry practice in mainland China, we allow distributors to engage sub-distributors within their designated geographical region. Such sub-distributors are typically local sellers and/or repairers of electric two-wheeled vehicles that are relatively smaller in scale as compared to first-tier distributors and operate as individuals or legal entities established by individuals, such as private enterprises. To the best knowledge of our Directors, as of April 30, 2023, our distributors had in aggregate over 9,600 sub-distributors. As of December 31, 2020, 2021 and 2022 and April 30, 2023 and up to the Latest Practicable Date, based on information submitted by distributors through our distributor management system, 484, 577, 607, 649 and 681 distributors engaged sub-distributors. To the best knowledge of our Directors, all of the sub-distributors were Independent Third Parties, and we are not aware of any relationship between the sub-distributors and our employees or former employees.

We do not have direct contractual relationships with the sub-distributors that are used by our distributors. We delegate to our distributors the authority to choose their sub-distributors and negotiate the transaction terms directly with them, and we rely on our distributors to limit their sub-distributors' activities within the distributor's designated distribution territory. Under our standardized distribution agreement, our distributors are responsible for managing their sub-distributors including limiting them to resell our products within the designated distribution areas. In addition, we have adopted measures to ensure that sub-distributors operate in line with our overall sales and distribution strategy. These measures include our sales personnel visiting sub-distributors and their retail outlets from time to time, communicating with them, providing support and training, and collecting information and feedback from sub-distributors. If we become aware of any non-compliance or misconduct of a sub-distributor, we will notify the relevant distributor and sub-distributor accordingly and request them to take rectification and improvement measures. In case of any material breach or that any sub-distributor's activity disrupts the market of our products, we are entitled to require the relevant distributor to terminate its relationship with the relevant sub-distributor or, in serious cases, terminate the distribution agreement with the relevant distributor in accordance with the distribution agreement. Although certain sub-distributors were subject to administrative penalties as a result of unauthorized alterations and certain other reasons during the Track Record Period, considering that (i) relevant sub-distributors have complied with the administrative penalty decisions and rectification requirements to the satisfaction of the relevant government authorities and us, and (ii) to the best of our knowledge, none of the relevant sub-distributors were subject to multiple administrative penalties for the same underlying reasons during the Track Record Period, we are of the view that during the Track Record Period and up to the Latest Practicable Date, we were not aware of any material violation of our sales policies by sub-distributors or any material claims or non-compliant incidents regarding sub-distributors. For further details of administrative penalties in relation to sub-distributors, see "– Distributor Administrative Penalty Decisions."

Credit Policies and Financial Assistance to Distributors

Credit limits

During the Track Record Period, our sales to most of our offline distributors were made on a payment-before-delivery basis. We believe such practice helps mitigate channel stuffing risks as it encourages distributors to distribute our products in a timely manner and discourages them from overstocking. During the Track Record Period, we did not offer credit terms (defined as a specified number of days after which full payment becomes due) to our offline distributors in mainland China. Instead, on a case-by-case basis, we provided revolving credit limits to certain creditworthy distributors, distributors with whom we have long-term relationships or distributors with a relatively larger scale.

Our credit limit in general represents a maximum revolving amount we grant to distributors for purchasing products only. Each credit limit we grant has a validity period, within which, credit limit can be used, repaid and re-used up to the maximum limit. The validity period begins when we approve the credit limit rather than first used by distributors. Distributors are required to settle all outstanding amounts upon expiration of the validity period and outstanding balances are recorded as receivables. In addition to limiting the use of credit limits to purchasing our products only, in order to control associated risks, we generally require relevant distributors to provide sufficient collateral or personal guarantees. In general, credit limits we grant to distributors can be divided into regular credit limits and temporary credit limits.

Regular credit limit is usually granted to distributors to support their continuous business expansion. The validity period for regular credit limit is typically one or within one year. The amount of regular credit limit is typically determined based on the relevant distributor's performance in the previous year and estimated sales target in the coming year/validity period of the credit limit. In principle, such amount does not exceed RMB100 per vehicle of the proposed annual sales target. If the distributor applies to renew the credit limit upon expiration, we will re-evaluate the distributor's qualifications and adjust the amount based on its sales performance and renewed sales target. In very limited circumstances, we provided regular credit limits with validity periods of over one year, mainly for the following reasons: (a) to attract distributors with strategic importance to join our network. For example, when negotiating terms of distribution and cooperation agreements with certain potential distributors, in order to attract such distributors, we offered credit limits with validity periods within one to five years taking into account their qualifications and market influence; (b) to support relevant cooperating distributors' liquidity needs to open new retail outlets or continuously place large orders to better develop important regional markets. For markets with intense competition or high importance to the company, if the distributor needs funds for expansion purposes and has formulated a reasonable development plan, on a case-by-case basis, our senior management team will carefully evaluate the feasibility of the development plans formulated by such distributors and relevant risks and determine appropriate credit limit amounts and validity periods.

Temporary credit limit is typically granted to distributors with short-term working capital needs, for example, during peak seasons. The validity period of temporary credit limit is typically one to three months and, in principle, no longer than six months. Such temporary credit limit is typically not re-evaluated or renewed after expiration.

The table below sets forth a breakdown of number of offline distributors with credit limits by type of credit limit:

	As of December 31,			**As of April 30,**
	2020	**2021**	**2022**	**2023**
Number of offline distributors with credit limits[Notes]	36	52	67	77
– Regular credit limits	*27*	*39*	*55*	*46*
– Temporary credit limits	*12*	*16*	*21*	*49*

Notes:

1. Includes distributors with credit limits in the year/period who had outstanding receivables at the end of the same year/period.

2. Three, three, nine and 18 distributors in 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively, were granted both regular credit limits and temporary credit limits.

The table below sets forth a further breakdown of distributors with regular credit limits by different validity periods.

	Year ended December 31,			Four months ended April 30,
	2020	**2021**	**2022**	**2023**
Number of offline distributors with regular credit limits[1]	27	39	55	46
– Within 1 year	*25*	*31*	*47*	*38*
– Over 1 year and within 3 years	*2*	*7*	*6*	*6*
– Over 3 years and within 5 years	*0*	*1*	*2*	*2*

Notes:

1. Includes distributors with regular credit limits in the year/period who had outstanding receivables at the end of the same year/period.

The table below sets forth a further breakdown of distributors with regular credit limits by different ranges of credit limit amounts offered.

	Year ended December 31,			Four months ended April 30,
	2020	**2021**	**2022**	**2023**
Number of offline distributors with regular credit limits[1]	27	39	55	46
– Within RMB2 million	*18*	*25*	*38*	*31*
– Over RMB2 million and within RMB5 million	*5*	*9*	*11*	*10*
– Over RMB5 million and within RMB10 million	*2*	*3*	*4*	*4*
– Over RMB10 million[2]	*2*	*2*	*2*	*1*

Notes:

1. Includes distributors with regular credit limits in the year/period who had outstanding receivables at the end of the same year/period.

2. A total of three distributors were granted credit limits with amounts over RMB10 million, including (a) Lin Pingzai whose maximum credit limit amount was approximately RMB13.0 million during the Track Record Period, (b) the Nanjing Distributor (as defined below) whose maximum credit limit amount was approximately RMB27.7 million during the Track Record Period, and (c) a distributor in Guangxi Province whose maximum credit limit amount was approximately RMB20.5 million during the Track Record Period. The Company granted such credit limits with relatively larger amounts primarily considering (i) their historical sales performance or mid to long-term market development plans which include procuring real estate to open new retail outlets, and (ii) the collateral they provided.

According to Frost & Sullivan, as purchasing and stocking of electric two-wheeled vehicles bring substantial cash flow pressure to distributors and as financial strength and sales performance of electric two-wheeled vehicle vary substantially across distributors, it is not uncommon in the electric two-wheeled vehicle industry in mainland China for companies to grant credit terms and credit limits to their distributors.

We determined to provide credit limits instead of credit terms to offline distributors primarily considering the specific nature of the electric two-wheeled vehicle industry and general practices in the industry. Due to seasonality, the procurement and sales frequency of offline distributors differs significantly in peak and off-peak seasons. In peak seasons, due to higher sales demand and the constraint by limited storage space of their retail outlets, distributors often purchase products from us at a higher frequency, such as several times a week, while in off-seasons, they make purchases less frequently on a weekly or semi-monthly basis. Compared to traditional credit term arrangements, we believe our credit limit arrangement better matches with the working capital turnover needs of distributors and provide greater flexibility in terms of using and repaying credit limits within the validity period according to their sales plans. At the same time, we believe our credit limit arrangement provides stability which is convenient for distributors to comply with and helps maintain their loyalty. On the other hand, this credit limit arrangement also enables us to recover funds from distributors more promptly during peak seasons and allows us to track, manage and evaluate the credit performance of relevant distributors, and update or adjust our credit limits on a case-by-case or region-by-region basis whenever necessary.

The table below sets forth further details regarding credit limits granted to distributors during the Track Record Period.

	Years ended/As of December 31,			**Four months ended/As of April 30,**
	2020	**2021**	**2022**	**2023**
Total number of offline distributors	1,114	1,108	1,236	1,314
Number of distributors with credit limits[1]	36	52	67	77
Number of distributors with credit limits as a percentage of total number of offline distributors	3.2%	4.7%	5.4%	5.9%
Amount of receivables attributable to distributors with credit limits *(RMB'000)*	86,000	117,930	135,560	119,112

	Years ended/As of December 31,			Four months ended/As of April 30,
	2020	**2021**	**2022**	**2023**
Amount of receivables attributable to distributors with credit limits as a percentage of total revenue	3.6%	3.5%	2.8%	7.2%
Revenue contribution of offline distributors with credit limits *(RMB'000)*	300,572	809,938	1,214,579	537,669
Revenue contribution of offline distributors with credit limits as a percentage of total revenue	12.6%	23.7%	25.4%	32.6%
Turnover days[2]	106	46	38	28

Note:

1. Includes distributors with credit limits in the year/period who had outstanding receivables at the end of the same year/period.

2. Turnover days are calculated by the average of the beginning and ending balance of receivables attributable to distributors with credit limits divided by revenue contribution of such distributors in the year/period and multiplied by 365 for the years ended December 31, 2020, 2021 and 2022 and by 120 days for the four months ended April 30, 2023. We are unable to provide a comparison between such turnover days with that of industry peers primarily because the industry peers have not publicly disclosed this level of detail on their credit limits granted to distributors or the underlying information required to calculate such turnover days including revenue or outstanding receivables attributable to such distributors.

Considering that (i) the amount of outstanding receivables attributable to offline distributors with credit limits in 2020, 2021 and 2022 and the four months ended April 30, 2023 was equivalent to approximately 3.6%, 3.5%, 2.8% and 7.2% of our total revenue, respectively, (ii) it is not uncommon in the electric two-wheeled vehicle industry in mainland China to grant credit terms and credit limits to their distributors and (iii) we have adopted a credit management policy which sets forth, among other things, annual limits (maximum amount of credit limit approved shall not exceed RMB200 million inaggregate at all times, which is relatively small as compared with our total revenue during each year of the Track Record Period), eligibility of distributors/sub-distributors, application and approval procedures, collection procedures, and default clause to manage associated risks, we believe our distributors do not materially rely on credit limits for their business and we believe that we did not significantly rely on granting credit periods to generate sales to distributors. For further details of our trade receivables, see "Financial Information – Selected Key Balance Sheet Items – Trade and Notes Receivables".

Loans

In 2020, 2021 and 2022 and the four months ended April 30, 2023, we provided loans to a total of 31 distributors and sub-distributors, with an aggregate loan amount of approximately RMB6.8 million, RMB15.9 million, nil and nil, respectively. Such loan amounts were equivalent to approximately 0.4%, 0.6%, nil and nil of our revenue generated from sales of products to offline distributors for the same periods, respectively. As of April 30, 2023, approximately RMB5.6 million of our loans to distributors or sub-distributors remain outstanding with three distributors. We initiated litigations against these three distributors and under the auspices of the relevant courts, we have entered into mediation agreements with all three of these distributors. As these distributors have defaulted under their respective mediation agreements, compulsory enforcement has commenced upon our application with the relevant courts. Firstly, in December 2022, we reached a repayment plan with one of such defaulting distributors ("**Distributor I**"), under which he agreed to settle approximately RMB358,082 (representing the total outstanding principal amount) by December 2025. We recorded full provision with respect to Distributor I as of April 30, 2023. We terminated our cooperation with Distributor I in August 2023. Secondly, the second defaulting distributor ("**Distributor II**") has not been making repayments since we applied for compulsory enforcement with an outstanding amount of RMB9.1 million (including loans of RMB3.0 million and receivables in relation to credit limits of RMB6.1 million). Full provision has been made with respect to Distributor II as of April 30, 2023. As of the Latest Practicable Date, considering his industry experience and reputation in the region, while we have terminated him as our distributor, he still remains as a sub-distributor in our network. Lastly, foreclosure proceedings against the third defaulting distributor ("**Distributor III**") has been completed and RMB2.2 million has been repaid to us. A provision of approximately RMB3.5 million (including loans of RMB0.4 million and receivables in relation to credit limits of RMB3.1 million) as of April 30, 2023 has been made with respect to Distributor III and we have terminated our cooperation with him. We provided such loans to these distributors primarily to help them maintain market position in their respective regions, including providing loans for them to (i) meet their short-term cash flow requirements, (ii) acquire property to be used as retail outlets or make rental payment for their retail outlets. We also provided loans for them to release pledges on properties of the relevant distributors so that such properties could be subsequently pledged to our Group to secure outstanding receivables and/or loans. To ensure that such funds provided to distributors will be used for our intended purposes, we provided loans directly to sub-distributors in some situations. In most of the times when we provided loans to sub-distributors, we entered into tripartite agreements with the relevant distributor and sub-distributor.

Measures implemented to collect outstanding loans and receivables

In addition to providing loans to certain distributors to release pledges on properties of the relevant distributors so that such properties could be subsequently pledged to our Group to secure outstanding receivables and/or loans as described above, we adopted various measures with an aim to ensure repayment of outstanding receivables in relation to credit limits and outstanding loan amounts, including (i) requiring pledges of fixed assets upon granting credit terms or providing loans to distributors, (ii) conducting financial supervision over relevant distributors as further explained below,and/or (iii) initiate legal proceedings against relevant distributors.

During the Track Record Period, we instructed certain employees to conduct supervision over the financial condition of two of our distributors in Nanjing and Changsha, respectively, through shareholding vehicles that hold equity interest in such distributors who defaulted on the credit limits granted to them. In particular, (i) with respect to the defaulting distributor in Nanjing (the "**Nanjing Distributor**", also one of our five largest customers in 2020), the equity interest of the Nanjing shareholding vehicle was held as to 99% and 1% by two of our employees respectively, and (ii) with respect to the defaulting distributor in Changsha (the "**Changsha Distributor**"), the equity interest of the Changsha shareholding vehicle was held as to 95% by an employee of our Group and 5% by the defaulting distributor. No funds or consideration were required from us or our employees for holding the relevant equity interests in the relevant shareholding vehicles. Such arrangement was carried out on behalf of our Group and for the purpose of monitoring the operations and cash flow of such distributors to ascertain their ability to repay outstanding loans or payables and ensure repayment. The relevant employees of our Group were merely holding the equity interests of the shareholding vehicles on behalf of the relevant distributors and the daily operations and businesses of the relevant distributors were still carried out by themselves and their respective staffs. During the relevant times, relevant employees of our Group held positions such as legal representative, executive director, director, supervisor and/or general or financial manager of the shareholding vehicles solely for the purpose of monitoring. During the term of such arrangement, which will be terminated either until the outstanding amounts are fully repaid or until we are satisfied with the distributor's operational capabilities and its ability to repay, we agree with each of the owners of the relevant distributors that a certain percentage of the profit of the distributor shall be used to repay outstanding amounts due to our Group. In 2020, 2021 and 2022 and the four months ended April 30, 2023, revenue attributable to these two distributors (including the respective shareholding vehicles) amounted to approximately RMB28.2 million, RMB38.6 million, RMB50.2 million and RMB12.8 million, respectively.

We have ended the above arrangement with the Nanjing Distributor as we have determined that the effectiveness of such arrangement with respect to this distributor was relatively unsatisfactory to us. In July 2022, we reached a repayment plan with the Nanjing Distributor, under which he agreed to settle a total of RMB27.2 million in monthly installments of no less than RMB100,000 each by December 2024. As of the Latest Practicable Date, we have found a replacement for the Nanjing Distributor as he has not been making repayments on time and downgraded him to a sub-distributor accordingly. We have made provision of RMB0.3 million with respect to the Nanjing Distributor as of April 30, 2023 considering the majority of receivables due from him is covered by collateral. We have also terminated such arrangement with respect to the Changsha Distributor in June 2023. As of April 30, 2023, receivables due from this distributor was approximately RMB3.5 million. We recorded provision of approximately RMB0.2 million as of April 30, 2023 with respect to this distributor considering the majority of receivables due from him is covered by collateral. Since the

Changsha Distributor has been making repayments on time, complied with our monitoring and his sales network and reputation in the region, our cooperation with the Changsha Distributor continued as of the Latest Practicable Date. Upon discussion with the PRC Legal Advisors of the Company, based on the applicable laws, the relevant property registration certificates of the collaterals and relevant agreements, we are not aware of any material legal impediments preventing us from enforcing the collaterals against the Nanjing Distributor and the Changsha Distributor.

In addition to these two arrangements in Nanjing and Changsha, with an aim to maintain stable distribution of our products in Xi'an, Shaanxi province in view of the legal proceedings raised by creditors including us against Distributor II (as defined above), a new entity in Shaanxi was established in April 2019 to continue his business operations with us. Certain of our employees have held equity interest and/or positions of legal representative or supervisors primarily to assist in its initial establishment and to ensure stable distribution of our products in Xi'an prior to the Track Record Period. Daily operations of the new entity were carried out by Distributor II and his staff. In 2020, 2021 and 2022 and the four months ended April 30, 2023, revenue attributable to Distributor II (including through the new entity) amounted to approximately RMB10.4 million, RMB20.7 million, RMB16.5 million and nil, respectively. We decided to continue our cooperation with Distributor II through this new entity primarily because of the strategic importance of the Xi'an market (as the capital city of Shaanxi province) to us. We found another distributor to replace Distributor II in August 2022, and he is currently a sub-distributor as of the Latest Practicable Date.

Save as disclosed in the foregoing paragraphs, we have not requested any employee to hold equity interests with respect to our other distributors during the Track Record Period. Since we have terminated all three arrangements described above, as of the Latest Practicable Date, none of our employees hold any equity interests or positions in our distributors (or relevant shareholding vehicles) in relation to such employee-distributor arrangements. To the best of our knowledge, we believe we are not exposed to any material legal liability for such employee-distributor arrangements. Going forward, we do not intend to use such arrangements for any other defaulting distributor.

Save for the loans and credit limits as described above, we did not provide any other financial assistance to our distributors and sub-distributors during the Track Record Period. There was no employment or family relationship between distributors to which we had provided loans and us, our Directors, Shareholders and senior management or their respective associates. Moreover, to the best of our knowledge after due inquiry, none of our Directors, Shareholders, senior management or their respective close associates provided any financial assistance to our distributors during the Track Record Period. As confirmed by our Directors, we have not provided any new loans to distributors or sub-distributors in 2022 and up to the Latest Practicable Date and we do not intend to provide any more loans to distributors and sub-distributors going forward.

Save as disclosed above, to our best knowledge, our distributors, or their respective associates, do not have any past or present family, business, employment, or financial relationships with us or our subsidiaries, our Shareholders, Directors or senior management, or any of their respective associates.

Compliance

According to the General Lending Provisions (《貸款通則》) (the "**General Lending Provisions**"), a department rule promulgated by the PBOC on June 28, 1996 which came into effect on August 1, 1996, only financial institutions may legally engage in the business of extending loans, and loans between enterprises that are not financial institutions are prohibited. The PBOC may impose a fine of one to five times of the income generated (being interests charged) from the loan advancing activities between enterprises. During the Track Record Period, save for one distributor that we granted loans to in 2021 being a private company, all the other distributors or sub-distributors that we granted loans to were individuals. As advised by our PRC Legal Advisors, the loans we grant to distributors or sub-distributors that are individuals in the course of business are not prohibited by the General Lending Provisions. With respect to our loans to the distributor that was a private company, as further advised by our PRC Legal Advisors, notwithstanding the General Lending Provisions, the Supreme People's Court has made new interpretations concerning financing arrangements and lending transactions between non-financial institutions in 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 Provisions**") which came into effect on September 1, 2015 and was last amended on December 29, 2020 and became effective on January 1, 2021. According to the Private Lending Provisions, the Supreme People's Court recognizes the validity of loan contracts between non-financial institutions for production and operation needs so long as certain requirements, such as interests charged and no circumstance of invalidity of contracts under the Civil Code of the PRC, are satisfied.

We confirm that the loans are primarily made for the purpose of supporting the normal business operation of the relevant distributors and sub-distributors. We have no intention to engage in any private lending activity for the purpose of generating interest income, and our provision of loans to our distributors or sub-distributors did not involve the regulatory exceptional circumstances stipulated in the Civil Code of the PRC or relevant provisions of the Private Lending Provisions. Based on above, our PRC Legal Advisors are of the view that our provision of the loans to our distributors and sub-distributors during the Track Record Period are valid.

We further confirm that (i) the funds provided under the loans were self-owned funds of our Group and we have not provided loans to any unspecified persons or enterprises, and (ii) we have not been subject to any investigation, penalties or enforcement actions or received any notice from any regulatory authority in relation to loans to our provision of loans to distributors or sub-distributors during the Track Record Period. As confirmed by our Directors, we do not intend to provide any more loans to distributors and sub-distributors going forward.

Considering the reasons above, our Directors are of the view, and our PRC Legal Advisors concur, that, in connection with our provision of loans to distributors and sub-distributors, the risk of us being penalized based on the General Lending Provisions is remote, and our provision of loans to distributors or sub-distributors do not constitute material or systemic non-compliance of any applicable laws or regulations.

Corporate and Institutional Customers

The quick growth of e-commerce, food delivery and on-demand delivery has stimulated demand for electric two-wheeled vehicles due to its flexibility and efficiency, especially in urban areas. According to Frost & Sullivan, electric two-wheeled vehicles are the most used transportation tools in the on-demand delivery market. In addition, while the continuous urbanization process has promoted the expansion of city size, it has also led to obvious consumer pain points of last-mile mobility which has gave rise to demand for shared mobility in various forms, including electric two-wheeled shared mobility. According to Frost & Sullivan, the total number of shared electric two-wheeled vehicles in operation in mainland China amounted to approximately 7.0 million units in 2022 and is expected to reach 10.8 million units in 2027, representing a CAGR of 7.1% from 2023.

Along with such trends, we have actively engaged various corporate and institutional customers which include shared mobility service providers, such as Qingju Bike (青桔單車) and Hello Bike (哈囉單車), on-demand e-commerce companies, as well as logistics companies and certain government organizations.

We generally enter into framework agreements with corporate and institutional customers. Corporate and institutional customers place purchase orders with us from time to time based on their business needs, in which the type, quantity, unit price and delivery date of the products are specified. Upon confirmation of the purchase order by both parties, our corporate and institutional customers generally pay a certain percentage of the total amount of the order as a deposit, and the rest of the payment is typically settled after delivery of the products and issuance of invoice. During the Track Record Period, we provided certain major corporate and institutional customers credit terms of 90 days in general. The vehicles can be customized to their requirements, provided that the customized requirements do not infringe on the legitimate rights and interests of third parties and do not conflict with national and industry standards. If the electric two-wheeled vehicles we produce as requested by the customers cannot be licensed, corporate and institutional customers themselves shall bear the relevant losses. According to the framework agreement, corporate and institutional customers shall not change any part or component of the electric two-wheeled vehicles and maintain them in ex-factory conditions. Any modifications such as replacing the motor or altering maximum speed are strictly prohibited.

In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from corporate and institutional clients was RMB554.0 million, RMB421.0 million, RMB96.4 million, RMB17.9 million and RMB94.6 million, respectively, representing 23.5%, 12.5%, 2.1%, 1.6% and 5.8% of our revenue from sales of products of the relevant periods. As of the Latest Practicable Date, we did not experience any material sales returns or exchanges from our corporate and institutional customers.

Online Channels

To complement our offline distribution network, capture opportunities presented by the rapidly developing e-commerce in mainland China and fulfil consumers' demand for convenient shopping, we have established self-operated online stores on mainstream e-commerce platforms, including Tmall and JD.com. As of April 30, 2023, we had six self-operated online stores on six distinct third-party e-commerce platforms. We sell products directly to consumers via our self-operated online stores. Consumers can place orders for our products in our self-operated online stores and make payments via online payment channels provided by such platforms. For sales through our self-operated online stores, we are responsible for the logistics, fulfillment, and after-sales services of the orders. During the Track Record Period, we also distributed our products to customers via well-known online retailers, such as JD.com. None of these online retailers were also our offline distributors. We generally enter into sales and purchase agreements under this arrangement and we are responsible for delivery of the products to the online retailer after they place orders with us and risks transfer to the online retailers after they complete inspection and confirm the receipt of our products. Settlement is typically made after an agreed period of time after actual sales to consumers. We generally do not set sales targets for online retailers. Our online retailers are typically entitled to return products to us, which may include defective products or obsolete inventory. Although we allow our online retailers to return obsolete inventory, which is in line with market practice, our Directors are of the view that we are at low channel stuffing risks in our online channels on the basis that (i) online retailers who are entitled to return obsolete inventory are well-known platforms and with extensive sales experience and proven track record, who are our long-term cooperation partners; (ii) our cooperation agreements with them generally do not provide for minimum purchase requirements nor sales targets for the online retailers, and therefore they are not incentivized or obliged to purchase an amount of products exceeding the demands of their consumers; (iii) we obtain and review information on sales of our products by major online retailers to evaluate sales volumes and prices of our products in order to avoid channel stuffing from time to time; (iv) we communicate with online retailers and conduct analysis to understand the reasons for return of products; and (v) our sales through online channels are relatively insignificant as compared to our offline sales. During the Track Record Period and up to the Latest Practicable Date, there was no material product return from online retailers.

In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, revenue generated from online sales was RMB97.6 million, RMB108.8 million, RMB271.7 million, RMB24.3 million and RMB72.0 million, respectively, representing 4.1%, 3.2%, 5.7%, 2.1% and 4.4% of our revenue from sales of products of the relevant periods. We believe our online channels do not pose significant risk of cannibalization to our offline distribution network as on-site experience and test riding is still one of the most important factors of customers' decision-making process when purchasing electric two-wheeled vehicles. In addition, we have implemented a number of internal control measures to prevent cannibalization between our online and offline channels, including (i) setting higher prices for self-operated online stores to protect offline distributors as they have to incur higher costs and expenses to operate retail outlets; (ii) offering certain products exclusively in online channels to differentiate from product offerings in offline channels, and (iii) designing different marketing themes for online and offline channels. Going forward, we attempt to bring online traffic to our physical retail outlets, which we believe will enhance the visibility of our brand and products and make our products more accessible to potential consumers primarily through the use of online marketing methods such as online advertisement, social media and KOL marketing. For details, see "– Branding and Marketing".

Overseas Distributors

During the Track Record Period, our products were sold in 37 countries and regions outside mainland China including Thailand, Indonesia and the Philippines through overseas distributors. Our overseas distributors are primarily trading companies or importer-distributors who have experience in foreign trade, local experience and sales channels in their respective local markets. The table below sets forth the movement in the number of our overseas distributors during the periods indicated.

	For the year ended December 31,			For the four months ended April 30,	May 1, 2023 to the Latest Practicable Date
	2020	2021	2022	2023	
Number of overseas distributors at the beginning of the period	11	22	19	30	37
Number of new overseas distributors[1]	19	9	20	10	10
Number of terminated overseas distributors[2]	(8)	(12)	(9)	(3)	(7)
Net increase/(decrease) in overseas distributors	11	(3)	11	7	3
Number of overseas distributors at the end of the period	**22**	**19**	**30**	**37**	**40**

Notes:

1. The increase in the number of overseas distributors represents those overseas distributors that made purchases from us for the period indicated but did not purchase from us for the period immediately preceding the period indicated.

2. The decrease in the number of overseas distributors for the years ended December 31, 2020, 2021 and 2022 represents those overseas distributors that made purchases from us for the year indicated but did not purchase from us for the year immediately subsequent to the year indicated. The decrease in the number of overseas distributors for the four months ended April 30, 2023 and the period from May 1, 2023 to the Latest Practicable Date represents those overseas distributors that made purchases from us in 2022 but did not make any purchase in the four months ended April 30, 2023 and the period from May 1, 2023 to the Latest Practicable Date, respectively, and are not expected to make any purchase going forward.

In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, aggregate revenue generated from overseas distributors was RMB39.5 million, RMB63.3 million, RMB114.6 million, RMB45.9 million and RMB7.6 million, respectively, representing 1.7%, 1.9%, 2.4%, 4.0% and 0.5% of our revenue from sales of products of the relevant periods. We typically accept purchase orders from overseas distributors instead of enter into distribution agreements. To our best knowledge, they normally determine the size of their purchase orders based on their estimations of market demand and sometimes based on actual orders received from their customers. Products sold to overseas markets are typically customized to the specifications and requirements of each customer and different from the products we sell in the PRC. International sales also face certain uncertainties including those brought by local policies, production schedule and international logistics. As such, we do not set minimum sales targets or purchase targets for overseas distributors and do not offer rebates to them. We also do not establish fixed geographic coverage or designated distribution areas for overseas distributors considering the high costs of overseas transportation and logistics and as we are still in an early stage of exploring overseas markets and generally cooperated with one or a small number of overseas distributors in each region or country. Based on the above, we believe we are at low risks of cannibalization and channel stuffing with respect to our overseas sales. We recognize that overseas markets have different and/or evolving laws and regulations regarding electric two-wheeled vehicles. Therefore, when entering and operating in overseas markets, we will conduct comprehensive and continuous analysis on the market conditions and regulatory requirements, consult overseas distributors with local experience and seek professional advice whenever necessary to ensure compliance. We also cooperate with local distributors to complete relevant registrations or approvals to ensure our products comply with local laws and regulations before being licensed or used on road. Our Directors confirm, to the best of their knowledge, there has been no material non-compliance of laws and regulations of the relevant overseas markets where our products were distributed during the Track Record Period and up to the Latest Practicable Date. We believe there is significant growth potential for us in the overseas market and plan to take advantage of our Guangxi Plant and further explore and deepen our operations in selected overseas countries and regions. See "– Strategies – Steadily expand our business in international markets."

Anti-corruption and Anti-bribery

We strictly prohibit fraud and corruption by our employees so as to comply with relevant laws and regulates, safeguard our Group against associated risks and ensure the healthy and sustainable development of our Group. To this end, we have adopted an anti-bribery and corruption policy which describes, in detail, corruption and bribery conducts, such as receiving kick-backs or bribes, embezzlement, misappropriation, false accounting or cause our Group to engage in fictitious transactions. Our anti-bribery and corruption policy also specifies our internal prevention and investigation procedures and measures. We include our anti-bribery and corruption policy in our employee handbook and provide relevant trainings from time to time. We encourage anonymous and real-name whistle blowing by awarding those that provide valuable leads. We have established a whistleblower hotline and email address and strictly protect the identity of anonymous whistleblowers and prohibit discrimination of real-name whistleblowers. In addition, our policy also requires us to deliver our anti-corruption and bribery requirements and relevant information to stakeholders that directly or indirectly conduct businesses with us, including distributors and suppliers.

We pay special attention to employees that directly work with distributors and sub-distributors, such as our sale persons, and require them to sign a declaration confirming that they understand our requirements and policies regarding anti-corruption and anti-bribery including that they are prohibited from accepting or solicitating monetary and non-monetary gifts from customers, participating in hospitalities provided by customers, or, in general, taking advantage of their positions. Employees who violate our policies are subject to penalties, including termination of employment.

PRODUCT PRICING

We price our products based on various factors, including the market positioning for the specific product, supply and demand, procurement and production costs, spending patterns of our target consumers, the prices of competing brands' products, and the anticipated profit margins for us. We review and adjust our product prices periodically based on these factors and other general market conditions and release our prices through our distributor management system to distributors.

We adopt a mid- to high-end pricing strategy. According to Frost and Sullivan, the electric two-wheeled vehicle market can be divided into premium (above RMB3,500), medium (RMB1,500 to RMB3,500) and entry levels (below RMB1,500) based on manufacturer suggested retail price. For the four months ended April 30, 2023, approximately 10.2% of our electric two-wheeled vehicles were priced in the premium range and approximately 88.9% were in the medium range. We set distribution prices and recommended wholesale prices through our distributor management system which represent the prices at which we sell our products to distributors and the prices at which distributors sell our products to their sub-distributors, respectively. For sales to end-customers through distributors and sub-distributors, we set recommended retail prices for our products through our distributor management system, which are subject to minor adjustments (typically less than 10% from the recommended retail prices of the respective products) by distributors for differences in local competitive environment, rental and transportation costs as well as targeted consumer profile. The recommended retail price of each product is specified in our distributor management system, and no price range is specified in the distributorship agreements. We believe that such minor adjustments have not and will not lead to any material cannibalization issue. As confirmed by our Directors, there were no material abnormalities in terms of pricing across our distribution network during the Track Record Period. In addition, we have in place a number of management measures to avoid cannibalization with the following that specifically help prevent material deviation from recommended retail prices. For further details of the key aspects of our distributor management policies and measures, see "– Sales and Distribution – Offline Channels – Distribution Agreements with Offline Distributors" and "– Sales and Distribution – Offline Channels – Management of Offline Distributors."

- *Accountability.* Distributors that violate the distribution agreements or our policies, such as material deviation from recommended prices, will be penalized, such as cancellation or reduction of rebates or termination of relevant distribution agreements for their cannibalization activities. Distributors are also responsible for ensuring that their sub-distributors comply with our pricing policies and we are entitled to require distributors to terminate violating sub-distributors in serious events.

- *On-site inspections and monitoring through the distributor management system.* Our regional sales teams conduct scheduled and occasional unannounced on-site inspections of our distributor and sub-distributor retail outlets to monitor business operations of distributors and sub-distributors including their compliance with our policies and guidelines, including pricing requirements. We also encourage distributors and sub-distributors to use the e-warranty card function in our distributor management system which enables more complete and timely collection of selling prices and other sales information. In the event that relevant salesperson or personnel discover any material abnormalities in terms of product pricing, it will promptly report to us and require relevant retail outlets to rectify.

- *Mutual supervision.* We encourage distributors to supervise each other and report cross-region sales and cannibalization activities by other distributors and sub-distributors. We have a hotline in place that can be used for such purpose.

In certain circumstances, we may set minimum retail price for products that distributors have enjoyed a certain wholesale price or maximum retail price to achieve balance between sales volume to end-customers and selling prices. Retail prices for our products available in our self-operated online stores are typically higher than our suggested retail prices provided to offline distributors primarily for the protection of the business of distributors and their sub-distributors.

For corporate and institutional customers, we also use the cost-plus pricing method and consider procurement and production costs while also taking into account market factors such as supply and demand, prices of competing brands' products and the anticipated profit margin for us.

SEASONALITY

Our financial performance and results of operations are subject to seasonal fluctuations. We typically experienced higher sales in March of each year, primarily in connection with distributors' restocking demands after the Spring Festival holiday. Sales are also relatively higher in July, August and September of each year which are months that straddle summer holidays and school opening seasons when students and parents typically have strong transportation mobility needs. Sales of our products can also fluctuate throughout the year for other reasons, including the timing of new product launches and the timing of promotional campaigns.

CUSTOMERS AND CUSTOMER SERVICES

Customers

Our customers are primarily our distributors in mainland China, international distributors, corporate and institutional clients and end customers from our self-operated online stores. In 2020, 2021 and 2022 and the four months ended April 30, 2023, the aggregate revenue generated from our top five customers in each period during the Track Record Period amounted to RMB634.3 million, RMB661.7 million, RMB553.8 million and 219.1 million, respectively, representing 26.7%, 19.4%, 11.6% and 13.3%, respectively, of our total revenue for the respective periods. For the same periods, revenue generated from our largest customer in each period during the Track Record Period amounted to RMB390.5 million, RMB286.4 million, RMB189.0 million and RMB77.4 million, respectively, representing 16.4%, 8.4%, 4.0% and 4.7%, respectively, of our total revenue for the respective periods.

The following tables set out details of our five largest customers during the Track Record Period:

For the year ended December 31, 2020

Customer	Background[1]	Credit terms	Year of commencement of business relationship	Revenue	% of total revenue
				(RMB'000)	
Customer A	A shared mobility service provider headquartered in Zhejiang	Approximately 40 days	2019	390,518	16.4

Customer	Background[1]	Credit terms	Year of commencement of business relationship	Revenue	% of total revenue
				(RMB'000)	
Customer B	A shared mobility service provider headquartered in Shanghai	50-80 days	2020	155,714	6.5
Lin Pingzai	A distributor based in Zhejiang	N/A(ii)	2003	47,681	2.0
Customer C	A distributor based in Shanghai	N/A(ii)	2019	22,182	0.9
Customer D	A distributor based in Jiangsu	N/A(ii)	2003	18,179	0.8
				634,274	26.7

For the year ended December 31, 2021

Customer	Background[1]	Credit terms	Year of commencement of business relationship	Revenue	% of total revenue
				(RMB'000)	
Customer A	A shared mobility service provider headquartered in Zhejiang	Approximately 40 days	2019	286,431	8.4
Customer B	A shared mobility service provider headquartered in Shanghai	50-80 days	2020	119,558	3.5
Lin Pingzai	A distributor based in Zhejiang	N/A(ii)	2003	119,033	3.5
Customer E	A distributor based in Beijing	N/A(ii)	2015	71,906	2.1
Customer C	A distributor based in Shanghai	N/A(ii)	2019	64,795	1.9
				661,723	19.4

For the year ended December 31, 2022

Customer	Background[1]	Credit terms	Year of commencement of business relationship	Revenue	% of total revenue
				(RMB'000)	
Lin Pingzai	A distributor based in Zhejiang	N/A[2]	2003	189,032	4.0
Customer F	A distributor based in Zhejiang	N/A[2]	2019	103,319	2.2
Customer G	An India-based distributor	N/A[2]	2018	92,175	1.9
Customer H	A distributor based in Zhejiang	N/A[2]	2008	85,505	1.8
Customer I	A distributor based in Anhui	N/A[2]	2021	83,726	1.8
				553,757	11.6

For the four months ended April 30, 2023

Customer	Background	Credit terms	Year of commencement of business relationship with us	Revenue	% of total revenue
				(RMB'000)	
Customer J	A shared mobility service provider headquartered in Shanghai	50-80 days	2022	77,441	4.7
Customer K	A distributor based in Shanghai and Kunshan, Jiangsu	N/A[2]	2019	39,949	2.4
Customer L	A distributor based in Guangxi	N/A[2]	2022	35,163	2.1
Lin Pingzai	A distributor based in Zhejiang	N/A[2]	2003	33,730	2.0
Customer M	A distributor based in Kunming, Yunnan	N/A[2]	2019	32,835	2.0
				219,118	13.3

Notes:

1. The following information is extracted from the latest annual reports, public business registrations or websites of the respective companies.

   Customer A was incorporated in China in 2017 and is a direct wholly owned subsidiary of a Hong Kong private company. It has a registered capital of RMB5.2 billion.

   Customer B was incorporated in China in 2016 and is a direct wholly owned subsidiary of a Jiangsu-based private company. It has a registered capital of RMB6.1 billion.

   Customer J was incorporated in China in 2021 and has a registered capital of RMB200 million.

2. During the Track Record Period, we granted credit limits to certain offline distributors. For details, see "– Sales and Distribution – Offline Channels – Credit Policies and Financial Assistance to Distributors".

During the Track Record Period and as of the Latest Practicable Date, none of our Directors, their associates or any other Shareholder which, to the best knowledge of our Directors, owns more than 5% of our share capital had any interest in any of our top five customers. Save for Lin Pingzai, one of our top five customers in each period of the Track Record Period, who held 27.45% and 67.45% equity interest in Fujian Yizhou, one of our top five suppliers in 2020, from 2008 to February 2022 and from February 2022 up to the Latest Practicable Date, respectively, none of our five largest customers during the Track Record Period was also our suppliers. Our transactions with Lin Pingzai and Fujian Yizhou were conducted on normal commercial terms, on an arm's length basis and were not inter-related.

Customer Services

We believe that the quality and timely availability of customer service are key competitive factors, as they are significant elements in overall customer satisfaction, and they shape a customer's purchase decision.

Our after-sales services cover product support, as well as repair, return and exchange of defective products. We primarily rely on our distributors to provide end-customers after-sales services through their retail outlets. In order to ensure quality of after-sales services provided by distributors, in addition to providing regular training on product knowledge, maintenance skills and general customer service skills to our distributors and their staff, we maintain a marketing support and customer service team dedicated to supporting and providing prompt response to distributor enquiries or suggestions. To further assure the quality of our after-sales services provided by distributors, we monitor and conduct appraisals on customer satisfaction rates. All of our products are assigned a unique product code to ensure the identifiability and recognizability of our products. Such unique product code is recorded in major steps of product production and distribution to provide traceability of specific product issues and helps to drive improvements to both our product quality and reliability of our production process. We also actively and directly interact with end-customers through our customer service hotline, and, increasingly, over online channels such as our official social media accounts and self-operated online stores.

Product Warranties and Recall

Under our general terms and conditions of sale and in accordance with relevant laws and regulations and industry practice, we typically provide a limited warranty on our products providing for the return, repair or replacement of defective items. While the terms of the warranties provided by us differ depending on the type of product and specific product component, they generally range from one to six years. For example, warranty period is one year for ordinary lead acid batteries, ordinary controllers, ordinary brakes, chargers, GPS modules and led bulbs etc., two years for ordinary lithium batteries, solid-state chargers and shock absorbers etc., and six years for ordinary vehicle frames, air-cooled controllers and SOC modules etc. In addition, since May 2022, we further extended the warranty period of our liquid-cooled motors to ten years and launched a marketing campaign titled "A Ten-Year Ride" (一部車騎十年). Our Directors are of the view that the extension of the warranty period for liquid-cooled motors will not have any material impact to the Group's business and financial performance, as (i) the increase in provisions for product warranty increased in line with the growth in sales of the Group's products during the Track Record Period and the provision ratio did not change significantly after this extension; and (ii) our Directors expects the liquid-cooled motors to maintain good quality throughout the ten-year warranty period and believes liquid-cooled motors are less susceptible to common quality issues of traditional motors. We also provide ten-year warranties for highly crafted vehicle frames, front forks and rear flat forks. According to Frost & Sullivan, the warranty periods we provide for our vehicles and core parts are the longest among industry peers. We generally make provisions for product warranty by reference to the sales volume and the corresponding costs for warranty services and reevaluate the adequacy of our provisions for product warranty on a regular basis. See "Risk Factors – Risks Relating to Our Business and Industry – We may be compelled to undertake product recalls or other actions, and our warranty reserves may be insufficient to cover future warranty claims which could adversely affect our brand image, financial condition, results of operations, and growth prospects." Except for parts and components that are manufactured in-house, our warranties are typically covered by suppliers' back-to-back warranties which are equal to or longer than the warranties we offer our distributors and end-customers. For example, if we provide a certain warranty period for batteries sold to consumers, we require the relevant battery supplier to provide us a same of longer warranty period. We also do not provide warranty services for any damages caused by man-made reasons, such as unauthorized alterations. We have maintained product liability insurance applicable to our products and believe that our existing insurance coverage is adequate for our existing operations and is in line with industry standards. For details, see "– Insurance".

In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, our warranty expenses amounted to RMB3.3 million, RMB5.1 million, RMB6.6 million, RMB1.7 million and RMB2.2 million, respectively. In line with the growth in sales volume and our revenue, warranty expenses increased from 2020 to 2022 and from the four months ended April 30, 2022 to the same period in 2023.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product return or replacement claim, nor did we receive any material warranty claim. During the Track Record Period and up to the Latest Practicable Date, we did not conduct any product recalls. During the Track Record Period and up to the Latest Practicable Date, we did not receive complaints from customers that materially and adversely affected our results of operations.

BRANDING AND MARKETING

Our brand has over 20 years of history in mainland China's electric two-wheeled vehicle market. Product quality is at the core of our brand and we believe our long history in the industry conveys consumers a sense of long-lastingness and trust.

We design and implement branding and marketing activities and strategies to reinforce and add more vitality to our brand image of quality, thereby enlarging our consumer base and increasing customer loyalty. To this end and based on the ten-year warranty period we provide for our liquid cooled motors since May 2022, we have recently launched a marketing campaign titled "*A Ten-Year Ride*" *(一部車騎十年)* under which we interview and collect stories from customers that have been riding our vehicles for over ten years. Under this campaign, we have met a large number of customers that shared their *Luyuan* experience with us, including how and when they bought their first *Luyuan* vehicle and the milestones of their lives which involved our vehicles. We believe this has not only allowed us to showcase the quality and durability of our vehicles, but also prolong our loyal customers' emotional attachment to our brand through facilitating reminiscences and rekindling customers' memories.

We strategically utilize multiple marketing vehicles to enhance visibility and recognition of our brands and ensure comprehensive consumer exposure. We advertise through a number of different traditional media channels, such as billboards, printed advertisements and television and internet commercials. For example, since 2021 we placed advertisements in high-speed rails to promote our brand and vehicles. We have also been proactively engaging in marketing activities and increasing our promotional efforts to enhance our brand exposure amongst young consumers. Specifically, we have sponsored a number of variety shows and dramas such as the fourth season of Rock & Roast (《脱口秀大會》), Back to Field (《嚮往的生活》), and Have Fun (《嗨放派》), which are popular among young consumers. We actively run our social media accounts on major social media platforms to interact with customers, addressing their questions while promoting our vehicles. In addition, we cooperate with internet celebrities or KOLs, which are typically influencers that are relatively active or popular on major social media or short video platforms, to promote our vehicles through live streaming or posting engaging content on major social media platforms, to achieve broad exposure to online consumers. These internet celebrities/KOLs typically test ride our vehicles and share their riding experience with their audience and followers. During the Track Record Period, we cooperated with over 420 internet celebrities/KOLs and our selling and marketing expenses attributable to internet celebrities and KOL marketing gradually increased during the Track Record Period in line with the rise in prevalence of this marketing measure in mainland China. In 2020, 2021 and 2022 and the four months ended April 30, 2023, selling and marketing expenses attributable to internet celebrities and KOL marketing amounted to approximately RMB0.6 million, RMB1.9 million, RMB7.2 million and RMB2.8 million, respectively, accounting for approximately 0.5%, 1.0%, 2.8% and 2.8% of our total selling and marketing expenses for the same periods, respectively. As such, we do not consider ourselves to rely on KOL marketing.

Recently, relevant PRC government departments have promulgated a series of laws and regulations related to internet celebrities/KOLs and online marketing, such as Measures for Marketing Management of Online Live Streaming (for trial implementation) (《網絡直播營銷管理辦法(試行)》) which was promulgated on April 16, 2021, the Opinions on Further Regulating the Profit-making Behavior of Online Live Streaming to Promote the Healthy Development of the Industry (《關於進一步規範網絡直播營利行為促進行業健康發展的意見》) which was issued on March 25, 2022, the Guidance on Further Regulating the Endorsement by Artists in Advertising Activities (《關於進一步規範明星廣告代言活動的指導意見》) which was issued in November 2022, the Measures for the Administration of Internet Advertising (《互聯網廣告管理辦法》) which was promulgated on February 25, 2023 and became effective on May 1, 2023. The main purpose of above-mentioned laws and regulations is to regulate internet advertising, online marketing, and artists advertising endorsement behavior, to strengthen the responsibilities and supervision (such as tax) of online live streaming platforms, internet celebrities/KOLs, artists etc., ensure the authenticity and legality of advertising content, and maintain and safeguard fair competition in the market order, the legitimate rights and interests of merchants and consumers.

We engage internet celebrities and KOLs for advertising purposes instead of product distribution, and our business does not rely heavily on internet celebrities/KOLs as we also utilize many other marketing vehicles. During the Track Record Period and as of the latest Practicable Date, to the best of our knowledge, we had no disputes or lawsuits with these internet celebrities/KOLs that cooperated with us, and no penalties or investigations were imposed on our Group for our cooperation with internet celebrities/KOLs. Considering the above, our PRC Legal Advisors are of the view that, the above-mentioned recent change in regulations related to the use of internet celebrities/KOLs and online marketing are not expected to have material impact on the Group's business operations.

In addition, we regard retail outlets of our distributors as an important channel for us to reach consumers nationwide, display our products, promote our brand, and to provide local consumers with on-site experience and professional services. Accordingly, we have dedicated resources in the implementation of brand management policies to manage various aspects of our distributors' points-of-sales. We aim to create a unique image for distributor retail outlets through the use of standardized and trendy décor and designs that are distinctive to our vehicles and brand image. Our headquarters sets out design, layout and the catchment area guidelines relating to the design and color of the store and vehicle displays to ensure a consistent visual image of our brand. We organize regular online and offline training on product and brand knowledge to distributor staff so that they are equipped with sufficient knowledge to serve customers and market our vehicles. Set forth below are pictures of certain *Luyuan* branded retail outlets.

Our marketing department is responsible for the design and implementation of our marketing strategies and campaigns. Moreover, we have established dedicated public opinion monitoring functions under our marketing department, which is responsible for constantly monitoring negative publicities on various media channels about our Company, our products, our distributors and so on. In 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, our selling and marketing costs amounted to RMB121.4 million, RMB192.4 million, RMB259.6 million, RMB53.2 million and RMB98.9 million, respectively, representing 5.1%, 5.6%, 5.4%, 4.6% and 6.0% of our total revenue of the same periods.

INFORMATION TECHNOLOGY SYSTEMS

We utilize various information technology systems to manage almost all aspects of our operations. Our information technology systems enable us to quickly retrieve and analyze our operational data and information, including procurement, sales, inventory, logistics, production, customer and financial data. We use our information technology systems to assist us in planning, managing and standardizing our production, quality control, inventory control, sales and distribution, budgeting, human resources and financial reporting functions, thereby improving our management and operational efficiency. Our main information technology systems include the following:

- ***ERP system.*** We utilize the enterprise resource planning, or ERP, system to retrieve and analyze our operational data to support decision-making and increase productivity and profitability. The ERP system covers various aspects of our operations, including manufacturing, financial accounting, forecast and planning, purchasing, order management, enterprise performance management and human capital management.

- ***BI system.*** We utilize the business intelligence, or BI, system to manage orders and sales of our retail outlets nationwide. This system comprises Retail BI, Product BI, Distributor BI and Order BI: (i) Retail BI provides sales data of our retail outlets, which helps us timely identify abnormal retail outlets; (ii) Product BI reflects the profile, gross profit and inventory turnover of our retail outlets' products, which helps us provide guidance to the retail outlets to optimize their product profiles in a timely and effective manner; (iii) Distributor BI monitors the sales trends of retail outlets at different levels, to give alerts for abnormal retail outlets; and (iv) Order BI monitors our retail outlets' order and delivery data, to identify unusual conditions through period-over-period comparison.

- ***MES system.*** We utilize the manufacturing execution system, or MES, to monitor, track, document, control and support our production process. We deploy this system to boost production efficiency at our production facilities as it enables real-time monitoring of production process by recording the progress of each production line and transmit production-related data, including volume, time and labor, to a centralized database, and thereby establishes an information driven manufacturing process. The system also enables our production planning department to monitor production loading and capacity, order scheduling and production scheduling plan. This system also fosters regulatory compliance through tracking and documenting information related to quality management, energy management and environmental and waste management. Data recorded from our production facilities are immediately made available to relevant decision-makers across our integrated systems for further consolidation, analysis and reporting.

- ***APS system.*** We utilize the advanced planning and scheduling, or APS, system to optimize our production efficiency through advanced scheduling and optimal use of resources and supplies. As a supplement to our ERP system, the APS system not only helps optimize our production process, but also the entire process from production to logistics, warehousing and delivery of products.

- ***OA system.*** We utilize the office automation, or OA, system which provides a platform for paperless information sharing and dissemination within our Group, enhances administrative records management and optimizes various approval procedures for our business operations.

We plan to strengthen our information technology systems to keep up with the growth of our business. We believe such improved systems will strengthen supply chain management as well as improve our ability to develop products that meet the demands and preferences of our customers.

DATA PRIVACY AND PROTECTION

In the ordinary course of business, we from time to time collect and use certain personal information of our consumers, such as the consumer's mobile phone number, purchase date and information of their electric two-wheeled vehicle, which are primarily used for the purpose of provision of after-sale services. We display our privacy policy to consumers and obtain their consent before they use our software or provide sensitive personal information to us. Our privacy policy primarily sets forth the scope of personal information, how we collect, use, share, disclose and protect customers' personal information and how users can manage their personal information provided to us.

We consider the protection of the data privacy of our customers to be of paramount importance. To ensure the confidentiality and integrity of our data, we have in place policies, procedures, software and technology infrastructure to collect, use, store, retain and transmit our consumer data in compliance with applicable data protection laws and regulations of the PRC. For example, we anonymize and encrypt confidential personal information and take other necessary technological measures to ensure the secure processing, transmission and usage of data. Moreover, we have established a strict approval mechanism, pursuant to which each level of customers data can only be accessed by certain designated and authorized personnel to the extent that is necessary after internal approval. We store personal information of customers collected in clouds operated by third party cloud service providers in mainland China. We have set forth certain data destruction rules in our policies and will delete the relevant user data when customers request or customers cancel their accounts through data erasure and physical destruction. We have established stringent internal policies under which access to privacy data is only granted to limited employees with access authorization. We also provide regular company-wide training to ensure that all of our employees are well aware of the significance of data privacy, our internal policies and relevant laws and regulations.

We employ a variety of technical solutions to prevent and detect risks and vulnerabilities in data privacy and security, such as firewall, encryption, vulnerability scanning, data backup system and database audit. We also have clear and strict data authorization and authentication procedures in place. Our employees only have access to data that are directly relevant and necessary to their job responsibilities. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, we had not experienced any material hacking incident, data leakage or IT system failure. During the Track Record Period and as of the Latest Practicable Date, we had complied with applicable laws and regulations relating to data security and privacy in all material aspects and have not received any penalty due to breach of data privacy.

INTELLECTUAL PROPERTY

Our intellectual property rights are fundamental to our success and competitiveness. We rely on a combination of trademark, trade secrets and other intellectual property laws as well as confidentiality agreements with our employees, suppliers, customers and others to protect our intellectual property. We also take a proactive approach in managing our intellectual property. Our legal department performs regular monitoring of our intellectual property rights and take action when it is aware of a potential infringement of our intellectual property rights.

As of the Latest Practicable Date, we had 437 patents (among which 46 are invention patents), 179 applications for patents and 17 copyrights in mainland China. For details of our material intellectual property rights, see the section headed "Statutory and General Information – B. Further Information about our Business – 2. Our Material Intellectual Property Rights" in Appendix IV.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes, litigation, or legal proceedings for any material violation of intellectual property rights of any person which would have a material adverse effect on our business. See "Risk Factors – Risks Relating to Our Business and Industry – We may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business" and "Risk Factors – Risks Relating to Our Business and Industry – Third parties may assert or claim that we have infringed their intellectual property rights."

COMPETITION

Driven by emission reduction policies, the advancement of e-motor and battery technologies, and the fast development of shared mobility and on-demand services that utilize electric two-wheeled vehicles, sales of electric two-wheeled vehicles have grown rapidly in major economies of the world over the past five years, according to Frost & Sullivan. Among which, mainland China is the most attractive market, accounting for 74.3% of the global sales volume in 2022.

According to Frost & Sullivan, mainland China's electric two-wheeled vehicle market is highly concentrated with top nine manufacturers accounting for 80.8% market share. According to Frost & Sullivan, as of December 31, 2022, there were in total around 100 electric two-wheeled vehicle manufacturers in mainland China. According to Frost & Sullivan, we ranked fifth place in mainland China's electric two-wheeled vehicle market in terms of total revenue in 2022, accounting for 4.2% of the market share.

There are certain barriers to entry into the electric two-wheeled vehicle market in light of regulations such as the New National Standards in place. For example, special qualification and permission is required to manufacture electric motorcycles. The New National Standards has also significantly raised the industry barriers in terms of technology, manufacturing capabilities and quality control capabilities for electric bicycles. Small and medium-sized enterprises that fail to meet such heightened requirements are expected to be eliminated gradually. According to Frost & Sullivan, other entry barriers include (i) development and application of new technology such as infotainment, more efficient battery management systems, lithium-ion battery and more advanced electric motors, (ii) early mover advantage, (iii) extensive and unremitting capital investment, (iv) brand recognition and consumer mindshare, and (v) wide coverage of distribution network.

We believe we are competitively positioned due to our first mover advantage, investments in research and development capabilities, advanced production capabilities, and established and widespread sales and distribution network.

EMPLOYEES

As of April 30, 2023, we had 2,574 full-time staff, all of whom were stationed in mainland China. The following table sets forth the number of our full-time employees by function as of April 30, 2023:

	Number of employees
Production	1,323
Sales and marketing	699
Research and development	361
General and administration	191
Total	2,574

Our employees are important assets for our development and we place great importance on attracting and recruiting qualified employees. Our human resource department is responsible for recruiting our employees. We recruit our employees primarily through on-campus recruitment, job fairs and internal and external referrals. We treat our employees fairly and ensure that they enjoy fair opportunities and conditions. In order to attract, retain and develop the knowledge, skill level and quality of our employees, we place a strong emphasis on training our employees. We provide training periodically and across operational functions, including introductory training for new employees, technical training, product training, management training and work safety training.

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety and sanitary conditions in the workplace, and termination. We also enter into standard confidentiality agreements with all of our employees. As required by PRC Law, we participate in various social security plans for our employees including housing provident fund, pension insurance, medical insurance, work-related injury insurance, maternity insurance, and unemployment insurance.

Besides our full-time employees, we also recruited part-time staff and engaged outsourcing staff by entering into outsourcing contracts with third-party human resource service providers to meet our increased staffing needs during peak production periods. We have not experienced any significant difficulty in recruiting employees, nor have we experienced any labor shortages during the Track Record Period that materially affected our operations.

Our subsidiaries have established labor unions that represent the relevant employees with respect to labor disputes and other employee matters. We believe we have maintained a good relationship with our employees and we did not have any material labor dispute during the Track Record Period.

AWARDS AND RECOGNITIONS

We have received numerous awards and recognitions in respect of our brands, products, research and development capabilities and etc., including:

Award/Recognition	Issuing Entity	Time of Receipt
Provincial High Tech Enterprise Research and Development Center (省級高新技術企業研究開發中心)	Zhejiang Department of Science and Technology (浙江省科學技術廳)	December 2005
Provincial Enterprise Technology Center (省級企業技術中心)	Zhejiang Economic and Information Technology Commission (浙江經濟和信息化委員會)	August 2009
Provincial Enterprise Research Institute (省級企業研究院)	Zhejiang Department of Science and Technology (浙江省科學技術廳)	August 2012
Well-known Trademark (馳名商標)	State Administration for Industry and Commerce (國家工商行政管理總局)	June 2015
Intellectual Property Advantage Enterprise (知識產權優勢企業)	State Intellectual Property Administration (國家知識產權局)	December 2015
Intellectual property management system certificate (知識產權管理體系認證證書)	Zhonggui (Beijing) Certification Co., Ltd. (中規(北京)認證有限公司)	April 2016, May 2019 and April 2022
A High Tech Enterprise (高新技術企業)	Zhejiang Department of Science and Technology (浙江省科學技術廳)	November 2018
Top 10 Enterprises of China's Electric Bicycle Industry (中國電動自行車行業十強企業)	China National Light Industry Council (中國輕工業聯合會)	June 2019 and August 2022
CNAS Accredited Laboratory (中國合格評定國家認可委員會實驗室)	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)	October 2019

Award/Recognition	Issuing Entity	Time of Receipt
Integration of Informationization and Industrialization Management System Certificate (信息化和工業化融合管理體系評定證書)	China Telecom Stocks Co., Ltd. (中電鴻信信息科技有限公司)	July 2020
High Tech Enterprise (高新技術企業)	Shandong Department of Science and Technology (山東省科學技術廳)	August 2020
Green Factory (綠色工廠)	General Office of Ministry of Industry and Information Technology (工業和信息化部辦公廳)	October 2020
First Prize of Science and Technology Progress Award (科學技術進步獎(一等獎))	China National Light Industry Council (中國輕工業聯合會)	March 2022
Top 200 Enterprises of China Light Industry (中國輕工業二百強企業)	China National Light Industry Council (中國輕工業聯合會)	July 2022
Specialized, Sophisticated, Unique and Innovative "Small Giant" Enterprise (專精特新"小巨人"企業)	General Office of Ministry of Industry and Information Technology (工業和信息化部辦公廳)	July 2022
Gold Award in China Bicycle and Electric Bicycle Design Competition (中國自行車電動自行車設計大賽金獎)	China Bicycle Association (中國自行車協會)	April 2023

INSURANCE

Besides statutory social insurances as required under relevant PRC Law including pension insurance, medical insurance, work-related injury insurance, maternity insurance, and unemployment insurance, we mainly maintain (i) product liability insurance which applies to our products; (ii) public liability insurance to cover liability for damages arising out of our business operations for designated locations such as point-of-sales of our distributors, (iii) property-related insurance to cover our facilities, equipment and inventories (iv) group liability insurance to cover liabilities arising from injuries, disabilities or deaths caused by work-related accidents. Our commercial insurances are maintained with a reputable insurance company in mainland China and subject to customary caps and deductibles etc. For example, the annual coverage of our product liability insurance is capped at RMB20 million and coverage for each accident is capped at RMB2 million (including RMB1 million for property loss and RMB1 million for personal injuries). There are also deductibles for each accident, which is the amount a policyholder must pay out of pocket before insurance kicks in. Deductibles for property loss of our current product liability insurance is the higher of RMB500 or 10% of the total loss. According to Frost & Sullivan, our insurance coverage on product liability is in line with industry standards.

We review our insurance policies from time to time for adequacy in the breadth of coverage. We believe our existing insurance coverage is adequate for our existing operations and is in line with industry standards. Nevertheless, we may be exposed to claims and liabilities which exceed our insurance coverage. See "Risk factors – Risks Relating to Our Business and Industry – We have limited insurance to cover our potential losses and claims" for further details. During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to us.

PROPERTIES

Owned Land and Properties

We own and occupy certain land parcels and buildings in mainland China for our business operations. As of the Latest Practicable Date, we owned land use rights of ten parcels of land in Jinhua (Zhejiang province), Guigang (Guangxi province) and Linyi (Shandong province) with an aggregated site area of 649,514 sq.m. As of the same date, we owned 62 buildings in Jinhua (Zhejiang province), Guigang (Guangxi province), and Linyi (Shandong province) with an aggregated GFA of approximately 576,518.4 sq.m. These properties are mainly used as manufacturing facilities, offices and dormitories to support our business operations. We had obtained all relevant property ownership certificates and other relevant land use right certificates for all of the properties we own.

As of the Latest Practicable Date, the current usage of two of our owned properties with an aggregated GFA of 32,447.1 sq.m. is inconsistent with their permitted usage as stated in their respective property ownership certificates. We currently use such owned properties as staff dormitories while their permitted usage under the relevant title certificates are industrial purposes. As advised by our PRC Legal Advisors, for the properties with usage defects, administrative penalties may be imposed on owners of properties if the properties are used inconsistent with their permitted usage, and our current usage may be interrupted. Furthermore, if the relevant land authority in mainland China allows us to continue to use such properties for their current usage they may require payment of land premium. Our Directors consider that such inconsistent use of properties will not have a material adverse effect on our operations on the grounds that (i) such properties are used as staff dormitories and we believe we can easily find alternative properties for such purpose with reasonable relocation costs, and (ii) based on interviews with competent authorities in mainland China, our current usage of such properties have been acknowledged.

Leased Properties

As of the Latest Practicable Date, we leased properties from third parties in fifteen cities with an aggregate area of approximately 36,392 sq.m. These properties are mainly used for warehousing. The leases generally have a term ranging from one year to five years.

In addition, as of the Latest Practicable Date, we also entered into three lease agreements as the landlord to lease the properties to third parties. Such properties have a total gross floor area of approximately 1,120 sq.m.

Non-registration of Lease Agreements

As of the Latest Practicable Date, ten of our lease agreements had not been registered with the relevant authorities in mainland China. Our PRC Legal Advisors advised us that the lack of registration does not affect the validity and enforceability of the lease agreement, but we may be subject to fines from RMB1,000 to RMB10,000 for each such lease agreement for failure to register. The estimated total maximum penalty is RMB100,000 which we believe is immaterial. Therefore, we believe that the failure to register these lease agreements will not have any material adverse effect on our results of operation or financial condition. As of the Latest Practicable Date, we have not received any administrative penalties in this regard. We will actively liaise with the respective lessors to complete the registration of all such lease agreements, if possible.

Lease Properties with Title Defects

As of the Latest Practicable Date, we were not provided with sufficient and valid ownership certificates or proper authorization from owners of eight of our leased properties, which covers a total area of approximately 15,346 sq.m., or 42.2% of our total leased properties from third parties. Such leased properties with title defects have been used as warehouses.

As advised by our PRC Legal Advisors, it is the relevant lessors' responsibility to comply with the relevant requirements and to obtain the relevant ownership certificates. Any failure to fulfill such procedures may subject the relevant lessors to penalties imposed by the land administrative authorities etc. and the lease agreements may be unenforceable in accordance with the relevant laws and regulations. As a tenant, we are not subject to any administrative punishment or penalties under relevant laws and regulations. However, our use of the defective leased properties may be affected by third parties' claims or challenges against the lease. Also, if the lessors do not have the requisite rights to lease the defective leased properties, we may not be able to lease such properties and may be required to vacate from such properties and relocate our warehouses.

During the Track Record Period and up to the Latest Practicable Date, our leases for the defective leased properties were not challenged by third parties or relevant authorities that had resulted or involved us as a defendant in dispute, lawsuit or claim in connection with the rights to lease and use such properties occupied by us. Upon expiry of these lease agreements, we will assess the legal risk when renewing the relevant lease agreements. Our Directors believe that such title defects individually or collectively would not materially affect our business and results of operations on the grounds that such leased properties with title defects have been used as warehouses and we believe we can easily find alternative leased properties for such purpose with reasonable relocation costs. Going forward, we will request all of our lessors to provide the necessary documentation with respect to the title of the relevant leased property before we enter into lease agreements with them.

Property Valuation

As of April 30, 2023, (i) each of our property interests for non-property activities (as defined under Rule 5.01(2) of the Listing Rules) had a carrying amount less than 15% of our total assets, and (ii) each of our property interests for property activities (as defined under Rule 5.01(2) of the Listing Rules) had a carrying amount below 1% of our total assets, and the total carrying amount of our property interests for property activities also did not exceed 10% of our total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

From time to time, we may be subject to various claims and legal actions arising in the ordinary course of our business. As of the Latest Practicable Date, there was no litigation, arbitration, administrative proceedings or claim of material importance pending or threatened by or against our Group or any of our Directors, that would have a material adverse effect on our results of operations or financial conditions.

The table below sets forth material litigation, arbitrations and other legal proceedings that our Group was involved in during the Track Record Period and up to the Latest Practicable Date having taken into account, among other things, the amount claimed by plaintiff(s) in pending litigations, the amount and liabilities undertook by our Group in concluded litigations and the nature and causes of the claims.

No.	Plaintiff(s)	Defendant(s)	Claims	Status	Insurance Coverage
1.	Mr. Liu	Ms. Xu, Hefei Honghe Property Management Group Co., Ltd. (合肥鴻鶴物業管理集團有限公司) Zhejiang Luyuan, Wuwei City Housing and Urban-Rural Development Bureau (無為市住房和城鄉建設局)	In September 2018, two persons died from a fire accident allegedly caused by a short-circuited electric two-wheeled vehicle purchased by Ms. Xu in 2016. The said two-wheeled vehicle was improperly parked, clogging the stairway with other vehicles and items on the first floor of a residential building, and the deceased living on the sixth floor blindly escaped toward the fire site on the first floor, contributing to their death. The deceased's son, Mr. Liu, sued the defendants, including Zhejiang Luyuan in the capacity as the manufacturer of the said two-wheeled vehicle claiming for approximately RMB2.4 million in aggregate.	In May 2022, the Court of Second Instance ruled partly in favor of the plaintiff and Zhejiang Luyuan was found 80% liable to this incident amounting to approximately RMB1.9 million which has been fully paid as of the Latest Practicable Date. We were not able to provide strong evidence to refute the plaintiff's claims in the course of the legal proceedings primarily because we did not have the opportunity to examine the relevant vehicle which was destroyed in the accident and challenge the fire scene report which we do not agree with and only received the same and became aware of the accident when being notified to attend trial court proceedings. Based on the facts that (i) the internal testing and investigation on the incident and similar product models lead by our research and development team immediately after being informed of the case did not reveal any abnormalities with the wiring or any product safety and quality risks, the results of which aligned with that of the independent testing and examination on the product model involved in the case conducted by the National Bicycle and Electric Bicycle Quality Inspection Center (國家自行車電動自行車質量監督檢驗中心); (ii) approximately 25,000 vehicles of the relevant models were sold from 2015 to 2017, and there has been no similar incident involving the relevant product models; (iii) we have not received any order from relevant government authorities to recall the relevant product model; and (iv) we have not received any order from relevant government authorities to recall any product models manufactured and sold during the Track Record Period, our Directors believe this accident was an isolated incident. Based on the foregoing and the due diligence conducted, nothing has come to the attention of the Sole Sponsor for them to disagree with the Directors' view above.	Together with case two below, RMB0.8 million. The total judgement amount was not fully covered by insurance primarily due to (i) deductibles (which is the amount a policy holder must pay out of pocket before insurance kicks in) and caps stipulated in the relevant insurance policies, and (ii) the insurance company's uncertainty as to the extent of product liability as it (and us) did not have the opportunity to properly investigate the accident and claims. The fact that Ms. Xu (owner of the relevant vehicle) did not sign the relevant fire accident report and her denial that the accident was caused by her vehicle also provided the insurance company grounds to reduce coverage. According to the relevant insurance policy, the insurance company was still uncertain on the extent of product liability because it was not bound by the court's ruling when assessing the amount of loss. No provision has been made as the judgement amount has been fully paid.

No.	Plaintiff(s)	Defendant(s)	Claims	Status	Insurance Coverage
				For measures we adopted to avoid similar incidents, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents" below for details.	
2.	Mr. Liu	Ms. Xu, Hefei Honghe Property Management Group Co., Ltd. (合肥鴻鶴物業管理集團有限公司), Zhejiang Luyuan, Wuwei City Housing and Urban-Rural Development Bureau (無為市住房和城鄉建設局)	In connection with the fire accident described above, the plaintiff also sustained injuries and sued the defendants for damages of approximately RMB1.4 million in aggregate. The two-wheeled vehicle involved was improperly parked, with other vehicles and items, at and clogging the stairway on the first floor of a residential building, and the injured living on the sixth floor blindly escaped toward the fire site on the first floor, contributing to his injuries.	In May 2022, the Court of Second Instance ruled partly in favor of the plaintiff and Zhejiang Luyuan was found 80% liable to this incident amounting to approximately RMB1.0 million which has been fully paid as of the Latest Practicable Date. For measures we adopted to avoid similar incidents, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents" below for details.	See case one above.

No.	Plaintiff(s)	Defendant(s)	Claims	Status	Insurance Coverage
3.	Mr. Yang, Ms. Huang, Ms. Yang, Ms. Zeng	Tianneng Shuaifude Energy Co., Ltd. (天能帥福得能源股份有限公司), Zhejiang Luyuan Information Technology, Chaowei Power Group Co., Ltd. (超威電源集團有限公司), Yingshang Northern Power Energy Limited (潁上北方動力新能源有限公司)	The plaintiffs alleged that on March 8, 2019, a man died and one of the plaintiffs sustained injuries from a fire accident that happened at the deceased's retail outlet caused by lithium-ion batteries store on the premises. The plaintiffs claimed for damages of approximately RMB1.8 million in total.	In March 2021, the trial court dismissed the plaintiffs' claims due to lack of evidence. We believe our products were not correlated to the fire on the basis that according to the relevant fire scene inspection record (火災現場勘驗筆錄), only cylindrical lithium-ion batteries were found at the fire scene, while the lithium-ion battery products we sold to the plaintiffs were rectangular. The plaintiff appealed and the case was remanded to the trial court. The retrial had commenced and pending judgement as of the Latest Practicable Date. Based on the trial court's findings and the fact that the plaintiffs failed to provide any evidence to the contrary, our Directors believe that we would not be found liable in the retrial. In addition, upon reviewing relevant evidences and documents, our PRC Legal Advisors are of the view that the risk that the Group will be found liable in the this case is remote on the basis that (i) the plaintiffs failed to meet the burden of proof in terms of proving the products of the Group were defective and proving that there was a causal relationship between the Group's products and the damages, and (ii) the new evidences submitted by the plaintiffs to the court of second instance which ordered the retrial makes it more likely that products of the other defendant(s) had caused the fire.	Not applicable as the case was dismissed by the trial court. Subject to an annual accumulated coverage limit of RMB20.0 million, the maximum insurance coverage under the Group's product liability insurance is approximately RMB2.0 million for each product liability claim. Based on the opinion of our PRC Legal Advisors that the likelihood of us being found liable in this case is remote, no provision has been made in respect of this case.

No.	Plaintiff(s)	Defendant(s)	Claims	Status	Insurance Coverage
4.	Mr. Jiang, Ms. Xu	Zhejiang Luyuan, Mr. Shi, Mr. Wang, Mr. Wang, Jianqiao Sub-district Office of Shangcheng District People's Government (Hangzhou) (杭州市上城區人民政府筧橋街道辦事處), Residents Committee of Hengtang Community of Jianqiao Sub-district (Shangcheng District, Hangzhou) (杭州市上城區筧橋街道橫塘社區居民委員會), Hangzhou Jianggan District Puping Electric Vehicle Retail Store (杭州市江干區普平電動車商行)	In August 2021, the plaintiffs alleged that on April 5, 2021, the plaintiffs' son sustained injuries and later died from a fire accident that allegedly was caused by a short-circuited electric bicycle and fire trucks could not get in due to the unregulated parking of vehicles in the neighborhood. The claim was raised against the owner of the said electric bicycle, the owners of the premises, the manufacturer Zhejiang Luyuan, and the relevant authorities allegedly in charge in managing the area. The plaintiffs claim for damages of approximately RMB1.3 million in total.	In October 2022, the trial court ruled that Zhejiang Luyuan was not liable to this incident because (i) the vehicle owner used batteries and chargers not from the original manufacturer; (ii) the relevant electric vehicle had obtained its quality certificate at the time of license registration and (iii) there was no evidence that the electric bicycle had any quality defects or experienced any malfunction. The other defendants were found liable to this incident, as the trial court determined that the accident was caused by the vehicle owner's use of batteries and chargers not supplied by the original manufacturer and the relevant retail store's unauthorized change of batteries and chargers, based on the fire accident report issued by the relevant fire brigade. In November 2022, Hangzhou Jianggan District Puping Electric Vehicle Retail Store (杭州市江干區普平電動車商行) appealed against the trial court ruling. The trial of second instance was held on February 16, 2023. The Hangzhou Intermediate People's Court made the final judgement on April 10, 2023 in which the appeal was dismissed and the original ruling that Zhejiang Luyuan was not liable to this incident was upheld. We have in place various internal control measures with respect to fire and major accidents. For details, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents."	Not applicable as Zhejiang Luyuan was not liable to this incident. Subject to an annual accumulated coverage limit of RMB20.0 million, the maximum insurance coverage under the Group's product liability insurance is approximately RMB2.0 million for each product liability claim. As advised by our PRC Legal Advisors that, according to the Civil Procedure Law of the PRC, the judgment and the written order of a people's court of second instance shall be final, and the Hangzhou Intermediate People's Court upheld the ruling that Zhejiang Luyuan was not liable to his incident, no provision has been made in respect of this case.

Having considered (i) our internal testing and investigation on the incident in connection with the first and second cases and similar product models did not reveal any abnormalities with the wiring or any product safety and quality risks; (ii) the first and second cases have been concluded and the aggregated judgement amounts of RMB2.9 million (or approximately 0.1% of our total assets as of December 31, 2022) has been fully paid, among which RMB0.8 million has been covered by insurance; (iii) the amount claimed by the plaintiffs in the third case, which amounts to approximately RMB1.8 million (or less than 0.1% of our total assets as of December 31, 2022), is immaterial to our overall financial conditions; (iv) our PRC Legal Advisors' opinion that the risk that the Group will be found liable in the third case is remote and such legal proceedings would not directly result in any administrative penalties or require us to cease production; (v) the fact that, the trial court of the third case has dismissed the plaintiffs' claims as no evidence shows any causal relationship between our products and the incident; (vi) the appellate court in the fourth case has dismissed the appeal and upheld the original ruling that Zhejiang Luyuan was not liable to the incident; (vii) we no longer sell or produce the relevant product models involved in these legal proceedings, and (viii) our insurance coverage, our Directors are of the view, and our PRC Legal Advisors concur, that the above legal proceedings will not, individually or collectively, have a material adverse impact on our financial and business performance.

We have engaged the Special Internal Control Consultant to perform an independent review on the effectiveness and enforcement of our internal control measures with respect to education and promotion of fire safety awareness of distributors/sub-distributors and end consumers and response mechanism for major accidents. Based on the Special Internal Control Consultant's follow-up review, the Special Internal Control Consultant did not have any further recommendation and is of the view that the internal control measures with respect to education and promotion of fire safety and major accident response mechanism we currently have in place, if implemented on a continuous basis, are effective and adequate in reasonably reducing the likelihood of re-occurrence of similar incident due to inadequate promotion of fire safety to distributors/sub-distributors and end customers or the failure to respond to major accidents in a timely manner. For further details, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Noncompliance Incidents and Mitigate Risks of Fire or Major Accidents" below. Nothing has come to the attention of the Sole Sponsor for them to disagree with the views of the Special Internal Control Consultant.

Based on the above and considering, among others, (i) our contribution to the formulation and promotion of the New National Standards which significantly raised safety standards for electric two-wheeled vehicles, (ii) our dedication to improving product quality and safety and comprehensive measures adopted by us to prevent fire and major accidents involving our vehicles, including our research and development on relevant technologies, quality control procedures and education of distributors and consumers, and (iii) none of the fire accidents disclosed above were intentional nor the result of gross negligence or recklessness and none of our Directors are subject to any legal or administrative proceedings arising from such accidents, our Directors believe that the three fire accidents disclosed above (of which one was found by the relevant trial court as unrelated to the Group's products, and another was dismissed on appeal as Zhejiang Luyuan was found not liable) should not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

Furthermore, the electric two-wheeled vehicle industry experienced a boost by the early development of shared economy and shared mobility from 2016 to early 2017 when dozens of shared mobility companies emerged due to the lack of regulations and supervision followed by a stage of strict regulations and supervisions from April 2017 to April 2019 during which certain major cities forced major shared mobility players to cease operation and when electric two-wheeled vehicle shared mobility was not supported. According to Frost & Sullivan, the electric two-wheeled industry has entered a new stage since the implementation of the New National Standards in April 2019 and other national standards and it is considered that, for complying manufacturers, common legal risks in the industry such as being involved in fire or traffic accidents will gradually decrease. For details, see "Industry Overview – Key Development Drivers and Market Opportunities – Development of Regulations and Supervisions and Analysis of Legal Risks".

Compliance

Non-compliance with PRC Law

Our Directors, as advised by our PRC Legal Advisors, confirm that as of the Latest Practicable Date, we have complied with the relevant PRC Law in all material respects and have obtained all requisite licenses, approvals and permits from relevant authorities that are material to our operations in mainland China, except as disclosed in "– Properties – Leased Properties" and "– Legal Proceedings and Compliance" herein.

The following table sets forth our non-compliance incidents under the relevant PRC Law during the Track Record Period and up to the Latest Practicable Date, and the corrective actions we have taken in response to these incidents:

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
We commenced our operations at certain production facilities of our Shandong Plant and Guangxi Plant before obtaining the relevant pollutant discharge permits.	*Shandong Luyuan* The failure to obtain the pollutant discharge permit of Shandong Luyuan was mainly due to the suspension and postponement of issuing and renewing pollutant discharge permits by relevant government authorities in the process of establishing a new regulatory regime for ecology and environmental protection and when Shandong Luyuan's original pollutant discharge permit expired in November 2014. In May 2020, the Environmental Protection Bureau of Yinan issued the "*Notice on Launching Registration of Pollutant Discharge Permits in 2020*", announcing its commencement of accepting applications for pollutant discharge permit. The review process under the new regulatory regime was complex and lengthy.	According to Regulation on the Administration of Permitting of Pollutant Discharges (排污許可管理條例), where any pollutant discharging entity discharges pollutants without obtaining a pollutant discharge permit, the competent department of ecology and environment shall require rectification, restrict or suspend the production of the entity, and impose a fine ranging from RMB0.2 million to RMB1.0 million.	We promptly applied for renewal of our pollutant discharge permit in July 2020 and complied with multiple rounds of requests of the relevant government authorities and obtained the new pollutant discharge permit for Shandong Luyuan on April 8, 2022. We promptly applied to the relevant government authority in February 2022 and obtained the pollutant discharge permit for Guangxi Luyuan on May 26, 2022. Based on the interviews with the Yinan branch of Linyi Ecological Environmental Bureau, which is the competent authority, as Shandong Luyuan has been granted the pollutant discharge permit, commencement of operations before obtaining the pollutant discharge permit does not constitute a material violation of applicable laws and regulations, and it would not fine, investigate or impose any other administrative penalties on Shandong Luyuan.

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
	Guangxi Luyuan The failure to obtain the pollutant discharge permit for Guangxi Luyuan was primarily due to the lack of sufficient understanding of the requirements of relevant laws and regulations by the relevant employees of the newly established Guangxi Plant. Specifically, employees at our Guangxi Plant were mistaken that the pollutant discharge permit was required only when industrial sewage will be generated and applied for the pollutant discharge permit in February 2022 before we generated any industrial sewage while we had started to generate domestic sewage. We became aware of that this constituted a non-compliance in February, 2022 upon being advised by our PRC Legal Advisors we engaged for the purpose of our listing application that our failure to obtain the pollutant discharge permit for Guangxi Luyuan constituted a non-compliance and advised us to take rectification actions.		Based on the interviews with Guigang Gangbei Ecological Environmental Bureau, which is the competent authority, it has not imposed any administrative penalties on or issued any rectification notice to Guangxi Luyuan in relation to its construction and operations, and that Guangxi Luyuan has continuously cooperated with the Bureau in terms of environmental protection and carried out construction procedures in accordance with relevant laws and regulations. Based on the aforementioned interviews, our PRC Legal Advisors are of the opinion that the risk of our Group being penalized due to such historical lack of pollutant discharge permits is relatively remote. Based on the aforementioned confirmations and as advised by our PRC Legal Advisors, our Directors are of the view that the lack of pollutant discharge permits would not have a material adverse effect on our operations. We have enhanced our policies and procedures relating to construction of production facilities and expansion of production capacity to clearly define the procedures as well as roles and responsibilities for obtaining and maintaining relevant permits and documents. We have established monitoring mechanism to govern and monitor the progress of application of relevant permits and documents and timely identify any potential delay. For further details, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents".

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
We commenced (i) the construction of a facility at our Guangxi Plant without obtaining the approval of the relevant authorities with respect to the required environmental impact report, and (ii) the production at our Guangxi Plant without completing the filing of the inspection and acceptance (竣工驗收備案) with relevant authorities.	Such non-compliance incidents occurred primarily due to the lack of sufficient understanding of the requirements of relevant laws and regulations by the relevant employees. Specifically, the relevant employees were mistaken that the relevant requirements were fulfilled as Guangxi Luyuan obtain the relevant permit for commencement of construction works (建設工程施工許可證) in February, 2020. Notwithstanding such misunderstanding, Guangxi Luyuan applied to the relevant authorities in August 2021 without being aware of its non-compliance and obtained the approval of the relevant authorities with respect to the required environmental impact report in October, 2021. With respect to commencing production without completing the filing of inspection and acceptance, the relevant employees were mistaken that the relevant requirements were fulfilled as Guangxi Luyuan completed the inspection and acceptance (竣工驗收) in July, 2021 and therefore did not complete the last step of filing. Notwithstanding such misunderstanding, Guangxi Luyuan completed the filing in May 2022 and obtained the relevant property ownership certificates in June 2022. We became aware of such non-compliances in February 2022 upon being advised by our PRC Legal Advisors we engaged for the purpose of our listing application that commencing (i) the construction of a facility at our Guangxi Plant without obtaining the approval of the relevant authorities with respect to the required environmental impact report, and (ii) the production at our Guangxi Plant without completing the filing of the inspection and acceptance constituted non-compliances.	According to the PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》) and the Regulations on Environmental Protection Management of Construction Projects (《建設項目環境保護管理條例》), (i) commencing the construction of our manufacturing facility without preparing the required environmental impact assessment documents and without obtaining the approval of the relevant authorities could subject us to a fine ranging from 1% to 5% of the overall investment amount for such construction project depending on the materiality and consequences of such violations, and we may be ordered to restore the construction site to its original state; and (ii) commencing the production at our Guangxi Plant without completing the filing of the inspection and acceptance could subject us to an order to make corrections within a specified time limit and a fine ranging from RMB200,000 to RMB1.0 million. If we are found not to have rectified such noncompliance within the specified time limit, we may be subject to a fine of RMB1.0 million to RMB2.0 million. If the construction project causes significant environmental pollution or ecological damage, its production or usage shall be suspended, or the project shall be closed down until the approval by the relevant government authorities is obtained. According to Regulations on the Administration of Quality of Construction Works (《建設工程質量管理條例》) failure to submit completion acceptance reports, relevant approval documents or permission documents in accordance with the regulations could subject us to an order to make corrections a fine ranging between RMB200,000 yuan to RMB500,000.	We obtained the approvals of environmental impact assessment in October 2021 and obtained the relevant property ownership certificates for the relevant facility in June 2022. Based on the confirmations from and interviews with Guigang Gangbei Ecological Environmental Bureau, it has not imposed any administrative penalties on or issued any rectification notice to Guangxi Luyuan in relation to commencement of construction without preparing the required environmental impact assessment documents and without obtaining the approval or filing of the relevant authorities and commencement of production without completing the filing of inspection and acceptance with relevant authorities, and that Guangxi Luyuan has continuously cooperated with the Bureau in terms of environmental protection and carried out construction procedures in accordance with relevant laws and regulations. Our PRC Legal Advisors are of the opinion that the risk of us being ordered to restore the construction site to its original state or to stop using the relevant facility is relatively remote on the basis that (i) the above non-compliance incident has been rectified and Guangxi Luyuan has obtained the relevant real estate ownership certificates, (ii) as of the Latest Practicable Date, no significant environmental pollution or ecological damage occurred due to the relevant facility, and (iii) the confirmations from and interviews with competent authorities. Although we may still be fined by the relevant environmental authorities, our Directors believe that there will not be any material adverse impact on our overall business, financial conditions or results of operations. We further enhanced our internal control measures. See "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents".

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
In 2020 and 2021, Shandong Luyuan received eight administrative penalties issued by Yinan County Market Supervision and Administration which found that a total of 84 products under ten product models produced by Shandong Luyuan were in violation of requirements as specified in the Product Quality Law of the PRC. All of these products were produced after the implementation of the New National Standards. Among these administrative penalties, four were correlated to four administrative penalties received by distributors/sub-distributors for selling the relevant non-conforming products. For details, see "– Distributor Administrative Penalty Decisions – Other Administrative Penalties Received by Distributors/Sub-distributors." The specific non-conformities were misdescription of user manual due to printing mistake, non-conforming tested value of overcurrent protection, lack of one short-circuit fuse due to inconsistencies in the implementation and interpretation of the New National Standards, non-conforming fuse installed at the battery output end, non-conforming brightness value of front and rear lights, unqualified speed due to quality of controller, overweight due to basket and backrest added, and frontline of saddle exceeding centerline of vehicle.	Such non-compliance incidents occurred primarily because (i) in terms of short-circuit protection, relevant vehicles were produced under the inconsistencies in the implementation and interpretation of the New National Standards during the transition period from the old national standards among different local government authorities, testing institutions and manufacturers. Relevant government authorities clarified the requirements of the New National Standards in October 2019, which specified that separate short-circuit fuses should be installed for each of the charging circuit and battery output circuit for an electric two-wheeled vehicle; and (ii) unstable quality of raw materials such as controllers and lights provided by certain suppliers. None of these administrative penalties involved any material quality issue or immediate safety issues.	Under the Product Quality Law of the PRC and pursuant to the relevant administrative penalty decisions issued by the Yinan County Market Supervision and Administration, Shandong Luyuan was ordered to (i) cease production of the non-conforming products, (ii) pay fines which amounted to RMB89,536 in aggregate, and (iii) forfeit illegitimate earnings of RMB6,344 in aggregate. In 2020, 2021 and 2022 and the four months ended April 30, 2023 and up to the Latest Practicable Date, sales generated by the 84 non-conforming products pursuant to the respective administrative penalty decisions amounted to RMB55,220, RMB23,830, nil, nil and nil, respectively. Since commencement of production of the relevant product models and up to receiving the administrative penalties, the total number of products sold under these ten product models was approximately 281.1 thousand units revenue contribution of these product models amounted to approximately RMB299.6 million. As we had ceased production of the non-conforming products before or at the time of receiving the relevant administrative penalties, we held no inventory of the non-conforming products at the time when relevant administrative penalties were issued and therefore no inventory of non-conforming products was written-off during the Track Record Period and up to the Latest Practicable Date.	Shandong Luyuan had rectified the non-compliance incidents by ceasing production of the non-conforming products and fully settling the fines and illegitimate earnings. All 84 non-conforming products were repaired or upgraded by the relevant distributors/sub-distributors to the satisfaction of the relevant authorities. As advised by our PRC Legal Advisors, the relevant administrative penalty decisions have been enforced in full and Shandong Luyuan is not subject to any further penalty with respect to such non-compliance incidents. As such, we are not subject to any further potential administrative, legal operational or financial exposure in relation to these administrative penalties. During the Track Record Period and up to the Latest Practicable Date, we did not, and were not required by any relevant government authority to, conduct any product recalls.

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
		In interviews with the Yinan County Market Supervision and Administration, it was confirmed that these eight administrative penalties were not serious and material non-compliances and we are entitled to continue to produce and sell conforming products of the relevant product models. All of our products had obtained CCC quality assurance certificates, and we did not receive any other administrative penalties with respect to product quality during the Track Record Period. As such, we continued to produce and sell the relevant product models after we completed all required rectifications pursuant to the respective administrative penalty decisions and only ceased production of these models when they became outdated. In 2020, 2021 and 2022 and the four months ended April 30, 2023, sales generated from the ten product models which had certain products involved in these administrative penalties amounted to RMB105.6 million, RMB80.6 million, RMB0.7 million and nil, respectively. As advised by our PRC Legal Advisors, we had complied with applicable laws and regulations relating to product quality in all material aspects during the Track Record Period and up to the Latest Practicable Date.	*Rectifications specific to the short circuit protection* In relation to short-circuit protection, upon receiving the Official Clarification, we started to implement the same on our products accordingly, upgrade relevant products and make requests to changes for relevant CCC quality assurance certificates. The administrative penalties we received for this reason only related to products manufactured and sold before we received the Official Clarification in October 2019. All of relevant products produced since October 2019 complied with the New National Standards and the Official Clarifcation. While there was no legal or regulatory requirement or order from any relevant authority that required us to recall any of the relevant products sold before receiving the Official Clarification, we also made active efforts to ensure compliance of products sold before receiving the Official Clarification and avoid (to the extent possible) being penalized for such products, including issuing notices to distributors to suspend sales until required upgrades were made. We also incorporated relevant check points to the quality control procedures of our products and relevant key performance indicators to evaluate our quality control personnel. *Rectifications specific to other administrative penalties related to batch-specific issues* In relation to overall vehicle weight, we have instructed sales managers to enhance their training provided to distributors in terms of product status, performance and scope of relevant CCC quality assurance certificates. In relation to non-conformities caused by unstable raw materials provided by suppliers, we have strengthened quality control and supervision over suppliers, increased frequency and number of random inspections and incorporated relevant key performance indicators to evaluate our quality control personnel.

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
		Reasons that these administrative penalties do not pose any material potential impact on our Group We believe that the administrative penalties unrelated to the short circuit issue were caused by limited, batch-specific issues (i.e. isolated cases that are not indicative of any design or production deficiencies) and therefore do not pose any material potential impact on our Group. In addition, the short-circuit issue was initially caused by inconsistent interpretation of the New National Standards at its early implementation. Based on the original language of the New National Standards, we designed relevant short-circuit protection devices using one shortcircuit fuse for both the charging circuit and the battery output circuit. We believe that such design was sufficient and complied with the original wording of the New National Standards from a technical standpoint. However, relevant government authorities subsequently clarified the requirements of the New National Standards in October 2019 (the "Official Clarification") which required separate short-circuit fuses for the two circuits. Prior to October 2019, we produced 32.8 thousand vehicles that potentially relate to the short circuit issue. We believe that none of these products should be considered non-conforming products and believe that they do not pose any material potential impact on us, primarily considering that (i) the short circuit issue does not involve any material quality or immediate safety issue of the relevant product models, (ii) we did not receive any other product quality-related administrative penalties in 2022 and up to the Latest Practicable Date, (iii) no government authority other than the Yinan County Market Supervision and Administration has found us liable for the relevant products during the Track Record Period and up to the Latest Practicable Date, (iv) as of the Latest Practicable Date, we have not identified any material accidents, complaints, safety issues, warranty claims and/or litigations arising from the short circuit issue, (v) there was no requirement to recall the relevant products, (vi) the active rectification measures adopted by us since receiving the Official Clarification, including repairing products produced before October 2019 to the extent possible, and (vii) the products produced before October 2019 are being gradually replaced by new models.	We have also adopted enhanced internal control measures with respect to product conformity and related compliance. For details, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents – Product conformity and compliance with legal requirements and national standards". Our Directors confirm that, to the best of their knowledge, there were no material accidents, complaints, safety issues, warranty claims and/or litigations against us arising from non-conforming products during the Track Record Period and up to the Latest Practicables Date. We confirm that, to the best of our knowledge, we are not subject to any investigation from relevant government authorities for product conformity as of the Latest Practicable Date.

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
		Our PRC Legal Advisors also concur with our view above that (a) the short circuit issues do not involve material quality or immediate safety issue of the products and (b) the 32.8 thousand vehicles produced before receiving the Official Clarification should not be considered as non-conforming products, primarily based on (i) compliance confirmations from relevant government authorities that we have not been involved in any material quality incidents during the Track Record Period, (ii) the relevant government authority has deliberately confined the scope of non-conforming products and penalties to a negligible number of products identified in its administrative penalty decisions based on its investigations, (iii) their interpretations of relevant provisions of the Law of the PRC on Product Quality (《中華人民共和國產品質量法》) and the Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) which indicate that in the event of such material product quality issues the relevant government authority should've revoked relevant business licenses or required product recalls, while both of which did not take place in the case of our Group, and (iv) our representations that the original design of our short-circuit protection device is sufficient and complies with the New National Standards from a technical standpoint.	

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
According to the Chinese Social Insurance Law (《中華人民共和國社會保險法》) and other relevant regulations, we are required to provide our employees with welfare schemes covering social insurance. According to the Regulations on Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》), we are required to make housing provident fund contributions for our employees. During the Track Record Period, we failed to make contributions to the social insurance and housing provident funds with respect to most of our employees in full amount as required by the relevant PRC Law. In 2020, 2021 and 2022 and the four months ended April 30, 2023, the shortfall amounts of such social insurance and housing provident fund contributions were RMB4.4 million, RMB3.4 million, RMB1.2 million and nil, respectively.	These non-compliance incidents occurred primarily because: (i) a certain number of our employees are migrant workers with high mobility who are typically unwilling to participate in the social welfare schemes of the city where they temporarily reside, (ii) a certain number of our employees were not willing to bear the costs associated with social insurance and housing provident funds strictly in proportion to their salaries (iii) the lack of experience of our relevant personnel who did not fully understand the relevant requirements of the relevant PRC Law, and (iv) inconsistencies in implementation and interpretation of the relevant PRC Law among different local government authorities.	Our PRC Legal Advisors has advised us that, under PRC Law, in respect of outstanding social insurance contributions, the relevant authorities in mainland China may demand us to pay the outstanding social insurance contributions within a stipulated deadline and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments, we may be liable to a fine of one to three times the amount of the outstanding contributions. Based on the unpaid amount of our social insurance contribution of RMB4.0 million, RMB2.5 million, RMB0.7 million and nil for 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively, the potential maximum fine which may be imposed on us if we fail to make required payments within the stipulated period required by the competent government authority equals to three times of the outstanding amount of our social insurance contribution. If we are ordered to make such payment by competent government authorities, we will do so within the prescribed time period and we do not expect to incur fines for the outstanding amounts of social insurance contributions.	Our Directors believe that such non-compliance would not have a material adverse effect on our business and results of operations, considering that: (i) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date; (ii) as of the Latest Practicable Date, we had not received any notification from the relevant authorities in mainland China requiring us to pay shortfalls or the penalties with respect to social insurance and housing provident funds; (iii) we were neither aware of any material pending employee complaints nor were involved in any material pending labor disputes with our employees with respect to social insurance and housing provident funds as of the Latest Practicable Date; and (iv) as advised by our PRC Legal Advisors, based on the relevant regulatory policies, the Company's confirmation and the facts stated above, and the confirmations from and interviews with relevant authorities, the likelihood that we would be required by relevant authorities actively to pay shortfall for social insurance and housing provident fund contributions collectively or being subject to material administrative penalties due to our failure to provide full social insurance and housing provident funds contributions for our employees is relatively remote.

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
		Our PRC Legal Advisors have also advised us that, in the event that we fail to pay the housing provident funds in full amount, the housing provident fund administrative center will order us to pay the amount within a prescribed time limit. If we fail to do so upon the expiration of the abovementioned time limit, further application may be made to the PRC courts for compulsory enforcement. As advised by our PRC Legal Advisors, there are no expressed legal provisions or regulations that impose a penalty on the Group for such under-payment but we may be ordered to pay the outstanding amount of our housing provident fund. In 2020, 2021 and 2022 and the four months ended April 30, 2023, the shortfall amounts of such housing funds contributions were RMB0.4 million, RMB0.9 million, RMB0.4 million and nil, respectively. If we were ordered to make such payment, we will do so within the prescribed time period.	Nevertheless, we have made provisions for the shortfall amounts of social insurance and housing provident fund contributions in the amounts of RMB4.4 million, RMB3.4 million, RMB1.2 million and nil for 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively. We have been actively reviewing and improving our practices. Specifically, starting from June 2022, we have completed the registration procedures for all of our current employees in connection with the contribution of social insurance premiums and housing provident funds and had made contributions for all employees pursuant to the requirements of relevant government authorities. In this regard, we have obtained written compliance confirmation letters from the relevant competent government authorities, which confirm that (i) we have contributed social insurance premiums and housing provident funds in compliance with the requirements of applicable laws and regulations with respect to social insurance and housing provident fund contributions or the standards permitted by the relevant and competent local government authorities, (ii) no administrative penalties had been imposed on us in connection with the matter of social insurance premiums and housing provident funds and (iii) we did not have shortfall of social insurance and housing provident fund contributions. As advised by our PRC Legal Advisors, the government authorities that issued such confirmation letters are competent government authorities in charge of social insurance and housing provident funds.

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
		Moreover, for social insurance, pursuant to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilizing the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated on September 21, 2018, it is prohibited for administrative enforcement authorities to organize and conduct centralized collection of enterprises' historical social insurance arrears. The Notice on Implementing Measures to Further Support and Serve the Development of Private Economy (《國家稅務總局關於實施進一步支持和服務民營經濟發展若干措施的通知》) (Shui Zong Fa [2018] No. 174) promulgated by the SAT and became effective on November 16, 2018, repeated that tax authorities at all levels may not organize self-collection of arrears of taxpayers including private enterprises in the previous years. The Notice on Promulgation of the Comprehensive Plan for the Reduction of Social Insurance Premium Rate (《國務院辦公廳關於印發降低社會保險費率綜合方案的通知》) (Guo Ban Fa [2019] No. 13), promulgated by the General Office of the State Council on April 1, 2019, emphasized that in the process of the reform of the collection system, it is not allowed to conduct self-collection of historical unpaid arrears from enterprises, and it is not allowed to adopt any method of increasing the actual payment burden of small and micro enterprises to avoid causing difficulties in the production and operation of the enterprise.	Taking the above-mentioned into account, including the compliance confirmation letters, and our confirmation regarding to our contribution to social insurance and housing provident funds with respect to all current employees, our PRC Legal Advisors are of the view that, since July 2022, our contributions to the social insurance and housing provident funds pursuant to our improved practices comply with the requirements permitted by the competent local government authorities that issued the compliance confirmation letters above. We have taken the following rectification measures to prevent future occurrences of such non-compliances: (i) we have enhanced our human resource management policies, which require social insurance and housing provident fund contributions to be made in accordance with applicable laws and regulations or in a manner as required by the relevant government authorities, and have assigned designated personnel to monitor the status of payments of social insurance premiums and provident funds on a regular basis; (ii) we will keep abreast of latest developments in PRC Law in relation to social insurance and housing provident funds; (iii) we will consult our PRC legal counsel on a regular basis for advice on relevant PRC Law to keep us abreast of relevant regulatory developments; and (iv) we are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees.

Non-compliance with Hong Kong Laws

Our Directors confirm that save as disclosed below under this paragraph, we have complied with all applicable laws and regulations in all material respects in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth our non-compliance incidents under the relevant Hong Kong laws and regulations during the Track Record Period and up to the Latest Practicable Date, and the corrective actions we have taken in response to these incidents:

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
Our Company filed a Form NN6, in relation to a change of directors of our Company on April 8, 2022, with the Companies Registry seven days later than the time limit stipulated in the Companies Ordinance.	The late filing was due to an inadvertent mistake and oversight by our staff responsible for the matter who did not seek timely and professional advice at the relevant time.	Pursuant to the Companies Ordinance, every responsible person of the company, and every agent of the company who authorizes or permits the contravention, commit an offence, and each can be liable to a potential maximum fine of HK$25,000 and, in the case of a continuing offence, to a further potential maximum daily fine of HK$700 for each day during which the offence continues. During the Track Record Period and up to the Latest Practicable Date, we have not been penalized for the non-compliance incident.	We have taken remedial actions in relation to the non-compliance by filing the specified form (Form NN6) with the Companies Registry. We have designated our administration staff to be responsible for managing and supervising our Company's Companies Registry filings in relation to relevant corporate actions who will work closely with our joint company secretaries to prepare the necessary fillings to submit to the Companies Registry in a timely manner. The relevant staff is required to keep a register in respect of, among other things, the filing deadlines and filing statuses of all relevant documents required under the Companies Ordinance and to seek legal advice to ensure due compliance of the statutory requirements under the Companies Ordinance.

Non-compliance incidents	Reasons for the non-compliances	Legal consequences	Rectification and Enhanced Internal Control Measures
Luyuan HK failed to file Form 56B, for each of the years of assessment ended March 31, 2020 and March 31, 2021, and Form 56F for one employee within the prescribed time limit under section 52 of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) ("**Inland Revenue Ordinance**").	The non-compliance was due to the unintended and inadvertent omission by our staff who was responsible for handling filings to the Inland Revenue Department of Hong Kong at the relevant time.	According to the Inland Revenue Ordinance, any person who without reasonable excuse contravenes section 52 commits an offence and is liable on conviction to a potential maximum fine of HK$10,000. During the Track Record Period, Luyuan HK was fined HK$2,400 by the Inland Revenue Department of Hong Kong for the late filing of Form 56B for the assessment year ended March 31, 2021. The fine was subsequently settled by our Group. Save as the aforesaid, Luyuan HK was not penalized for the non-compliance incident during the Track Record Period and up to the Latest Practicable Date.	We have taken remedial actions in relation to the non-compliance by filing the relevant Form 56B and Form 56F with the Inland Revenue Department of Hong Kong and have fully reported the annual salary of the employee. We have engaged a tax representative to supervise the preparation and filing status of all relevant documents required under the Inland Revenue Ordinance. Going forward, the administrative staff who is responsible for managing our human resources in Hong Kong is required to keep a register of, among other things, filing deadlines and filing statuses of all relevant forms required under the Inland Revenue Ordinance.

We are of the view that (i) our enhanced internal control measures are adequate and effective having regard to the obligations of our Company and our Directors under the Listing Rules and ongoing and future compliance with other relevant legal and regulatory requirements; (ii) the past non-compliance incidents would not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or the suitability for listing of our Company under Rule 8.04 of the Listing Rules, and (iii) our Directors have the competency, integrity and ability, and are willing to, manage our business in a law-abiding manner, on the following basis:

- our Directors did not intentionally cause our Group to breach any of the applicable laws and regulations and the occurrence of the non-compliance incidents were not due to the dishonesty, gross negligence or recklessness of our Directors nor for illegitimate purposes, especially considering the non-compliance with respect to social insurance and housing provident fund contributions were mainly the result of practical difficulties and that the root cause of such non-compliance is out of our Group's control despite our active efforts to comply and through no fault of our internal control measures. For details, see "– Non-compliance with PRC Law" above;

- all our executive Directors have substantial experience in business management and none of them is subject to any legal or administrative proceedings arising from the non-compliance incidents or legal proceedings above; Our executive Directors exercised fiduciary duty, duty of care and skill during the daily operation of our Group and have actively caused our Group to adopt measures to prevent and reduce the occurrence of legal risk incidents that are common in the electric two-wheeled vehicle industry. For examples of such measures, see "– Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents". In addition, according to Frost & Sullivan, following the implementation of various national standards since 2019, it is estimated, for complying manufacturers, common legal risks in the industry such as being involved in fire or traffic accidents will gradually decrease. For details, see "Industry Overview – Key Development Drivers and Market Opportunities – Development of Regulations and Supervisions and Analysis of Legal Risks";

- as advised by our PRC Legal Advisors, based on the compliance certificates issued by and interviews with the local government authorities governing the business operation of the operating entities in the Group in respect of industry and commerce, quality supervision, work safety, social insurance, housing provident fund, tax, properties and environmental protection, as well as the public searches conducted by our PRC Legal Advisors and confirmations from us, save for the non-compliance incidents disclosed above in "– Non-compliance with PRC Law", the Group has complied with the applicable PRC laws and regulations for our business operations in all material aspects during the Track Record Period;

- the non-compliance incidents, individually or collectively, have not had any material impact on our business operations and financial position. We have fully settled all administrative penalties and have made sufficient provision with respect to all non-compliance incidents, where applicable;

- our Directors have shown their willingness and commitment to ensure our future compliance based on the facts that (i) we have taken rectification and remedial actions immediately upon identification of the non-compliance incidents, whether in the past or during the preparation of the Listing, (ii) we have engaged a third-party internal control consultant (the "**Internal Control Consultant**") to perform an internal control review on our internal control systems, (iii) we have made further enhancement to our internal control systems pursuant to the recommendations of the Internal Control Consultant, which have not identified any additional material internal control deficiencies through its follow-up review. Furthermore, we have appointed a compliance advisor to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong and will engage professional and experienced legal advisors to advise on compliance with relevant laws and regulations. For further details of our internal control measures, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents";

- since the implementation of the enhanced internal control measures and up to the Latest Practicable Date, our Directors confirmed that our Group had not had any material breach of rules and regulations other than the non-compliance incidents as disclosed above; and

- our Directors are aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations.

Based on the due diligence conducted by the Sole Sponsor, nothing has come to the Sole Sponsor's attention which would cause the Sole Sponsor to disagree with the foregoing analysis.

RISK MANAGEMENT AND INTERNAL CONTROL

We have implemented a comprehensive set of risk management policies and procedures including anti-fraud regulations and risk management regulations, to identify, assess and manage risks that we are exposed to in our day-to-day operations. The Company has established a risk management committee responsible for the overall risk management. The risk management committee is composed of the Board, the risk management leadership group, the risk management executive group, and the risk information collection group. We encourage a culture of risk management and each department of the Company authorizes or designates personnel to collect risk information and report risk information to the risk management executive group. The risk management executive group is responsible for reviewing the risk management system regularly and guiding the risk management executive group. The risk management leadership group is the highest authority for risk management in the Company and approves the risk management system prepared by the executive group. The Board's role in risk management committee is to ensure the effectiveness of the risk management. For details on the qualifications and experiences of the members of the Board, see "Directors and Senior Management" in this document.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, apart from establishing risk management committee, we have implemented, and will continue to implement, the following risk management and internal control measures on our Group level:

- We plan to establish our audit committee to oversee our accounting policies, internal audits, financial conditions, significant investments, and trading activities. For the professional qualification and experience of the members of our audit committee, see "Directors and Senior Management" in this document;
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to connected transactions and information disclosure;
- continue to organize training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;
- We have appointed an internal control consultant to review our internal control measures and provide recommendations; and
- We have appointed Jun Hui International Finance Limited as our compliance adviser to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

Our Directors are of the view that our enhanced internal control system is adequate and effective for our current operations.

Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents

To prevent the occurrence of similar non-compliance incidents and mitigate the risk of fire and other major accidents, we closely examined our relevant internal control measures to identify the deficiencies in our internal control and put considerable efforts to improve our internal control measures, including engaging our Internal Control Consultant and Special Internal Control Consultant and making rectifications pursuant to their recommendations. The major enhanced internal control measures adopted by us in connection with non-compliance incidents and fire and other material accidents are set forth below:

- *Failure to obtain pollutant discharge permits, approval for environmental impact report and complete inspection and acceptance filing*. Our Directors and relevant personnel have attended comprehensive trainings provided by our PRC Legal Advisors on the legal requirements, necessary approvals, permits and licenses relating to construction of production facilities and commencement of operation. We have enhanced our policies and procedures relating to our production plants to clearly define the roles and responsibilities with respect to the application, renewal and management of relevant approvals, permits and licenses throughout our business operations, including follow-up and reporting mechanism to govern and monitor the progress of application and renewal of relevant permits and documents to timely identify any potential delay. With respect to our future production expansion plans, we will assign experienced and trained staff on-site to perform regular review and ensure the effectiveness of our internal control measures.

- *Product conformity and compliance with legal requirements and national standards.* We have arranged comprehensive and tailored trainings for our Directors and staff from our research and development, procurement, production, quality control and sales provided by industry experts and our PRC Legal Advisors in respect of applicable national and industry standards and the relevant laws and regulations relating to our products. We have designated personnel at our Product Certification department to oversee compliance with the New National Standards as well as other applicable standards and regularly update any changes in relevant laws and regulations as well as national and industry standards to keep our Directors and staff updated on an ongoing basis. All of our new product models are required to be approved by such personnel. In 2022 and up to the Latest Practicable Date, we have not received any administrative penalties with respect to product quality issues.

  In addition, we maintain rigorous quality assurance policies and processes with multiple quality checkpoints from the inspection of raw materials and components procured from suppliers, throughout our production process to the delivery of finished products, to ensure that our products conform to our internal product specifications and national and industry standards and are safe for consumers. For details, see "Business – Quality Control".

  In order to ensure that distributors and/or sub-distributors will not install non-conformed, substandard and/or unstable parts or components to the Company's products and will abide with all relevant legal requirements and national standards regarding product conformity, we have issued the Management Provisions on Law-abiding and Compliant Operations of Retail Outlets (《銷售門店守法合規經營管理規定》) which is applicable to all distributors, sub-distributors, retail outlets as well as all relevant sales and marketing personnel of the Group. The management provisions set forth in detail, and among other provisions, (i) management requirements including that all products displayed in retail outlets must be in the same status as recorded on the CCC certificates, (ii) a reporting system that ensures we are informed of government inspections, (iii) training and non-compliance identification guidelines, (iv) penalty clauses, and (v) rectification guidelines. We consider the compliance status of distributors as one of the most important criteria when engaging and evaluating distributors and sub-distributors. We also conduct periodic and ad hoc on-site inspections during which our sales personnel are required to check the compliance status and rectification status of distributors and sub-distributors. For further details of our on-site inspections, see "– Sales and Distribution – Offline Channels – Management of Offline Distributors". We have also established hotlines that allow distributors and the public to report non-compliances. Furthermore, we have also adopted various new technologies and designs that make our vehicles less susceptible to alteration. For details, see "– Distributor Administrative Penalty Decisions – Enhanced Remedial and Distributor Control Measures – Preventing alteration through enhanced technologies."

- *Social Insurance and housing provident fund.* For details of our enhanced internal control measures with respect to social insurance and housing provident fund, see "– Legal Proceedings and Compliance – Compliance – Non-compliance with PRC Law" above.

- *Fire and major accidents.* We are committed to prevent fire and major accidents involving our vehicles through various measures mainly including the following:

  – We have adopted a number of policies which have been distributed to distributors and sub-distributors to raise their awareness on fire safety and prevent fire accidents at retail outlets. Such policies include (i) requirements that retail outlets comply with fire safety requirements before opening, (ii) training for distributors on safety management, (iii) requirements that routine inspections must cover fire and retail outlet safety checks points, and (iv) a specified reporting and handling mechanism in response to distributor's possible safety incidents.

    In addition, our retail outlet management policy requires retail outlets to purchase relevant insurances. Our retail outlets can purchase public liability insurance and property liability insurance through our retail outlet safety program. As of the Latest Practicable Date, over 90% of our retail outlets had purchased insurance through us. For retail outlets that have yet to participate the safety program, we require them to purchase relevant insurances on their own and assign our employees to inspect their purchase of insurance and report to us on a regular basis. We have included the purchase of relevant insurances as part of our retail outlet assessment scheme. For retail outlets that have not yet purchased insurance, we may take measures, such as canceling rebates, to urge them to purchase insurance as soon as possible.

    A major accident response mechanism is also adopted within our Group which includes various aspects such as (i) roles and responsibilities of our major accident response team and a report and handling mechanism, (ii) identification and handling of potential accidents through after-sales service and complaints, (iii) response and handling measures for negative publicity, (iv) analysis on accidents and corresponding improvements, (v) social responsibility, compensation and appeasement approaches, and (vi) insurance coverage for major accidents.

  – We have enhanced our practices regarding informing and educating consumers through product manuals and other public channels on issues including charging, parking, making modifications to vehicles and riding safety. Our dedicated after-sales team have also organized periodic campaigns where they carry out inspections on consumers' vehicles to detect potential safety risks while providing consumers with safety education to raise their awareness.

  – We have been facilitating the development of the industry in the direction of safer and more reliable electric two-wheeled vehicles. In 2018, we were one of the only two manufacturers among the main drafting parties of the New National Standards, which significantly raised safety standards for electric two-wheeled vehicles. In light of the increasing use of lithium-ion batteries on electric two-wheeled vehicles and in recognition of our research and development and testing capabilities, we were also invited as one of the main drafting parties of the White Paper on the Safety of Lithium-ion Batteries for Electric Bicycles in 2020. We invest heavily in research and development of safe technologies and safe designs to promote safety and reliability of electric two-wheeled vehicles from a technical standpoint. For example, we have developed and widely adopted an innovative mesh-pattern wiring which prevents corrosion and short circuit caused by water accumulation. We have also applied a solid sealing technology and a graphene coating heat dissipation technology to the controller, which can help reduce its operating temperature, significantly improve its waterproof and shock resistance levels and effectively lower the risks of igniting nearby plastic parts of the vehicle. In addition, we are developing and plan to adopt other technologies to prevent fire accidents, including (i) fan-less solid-state charger which prevents heat increase due to fan malfunction and water leakage when charging outdoors; (ii) battery remote monitoring and big data systems which will allow us to predict and alert fire risks and arrange repair and replacement in advance; and (iii) lithium-ion battery charging cabinet equipped with fire detection and extinguishing systems. Furthermore, we have already started to design and develop vehicles that meet the requirements of GB42295-2022, the national standards for electrical safety requirements for electric two-wheeled vehicles which aims to address electric two-wheeled vehicle-related fire accidents released on December 29, 2022 and expected to come into effect on January 1, 2024.

In preparation of the Listing, we engaged the Internal Control Consultant to perform an internal control review. The work scope of our Internal Control Consultant covers reviewing and assessing various aspects of our operations, including (i) entity level controls, which covers employee training, board of directors and board committees, management philosophy, organizational structure, financial reporting, roles and responsibilities, human resources and legal and regulatory compliance, and (ii) business process level controls, which covers revenue and receivables, purchases and payables, inventory, costing, fixed assets, intangible assets, treasury, financial reporting, budgeting, insurance, tax, R&D management, payroll and general controls of information technology. Specifically, human resource under entry level controls covers, among other things, management mechanism over social insurance and housing provident fund compliance and legal and regulatory compliance covers systems and procedures for identification and management of non-compliance incidents, legal proceedings and dispute handling procedures, review and prevention of lawsuits and dispute and ongoing monitoring and assessment. The Internal Control Consultant performed a follow up review in June 2022 and December 2022, and confirmed that it did not have any further recommendation in the follow up review.

We have engaged the Special Internal Control Consultant to perform an independent review on the effectiveness and enforcement of our internal control measures with respect to fire safety issues and major accidents, including our education and promotion of fire safety awareness for distributors/sub-distributors and end customers, and response mechanism for major accidents. Based on the Special Internal Control Consultant's follow-up review carried out between

February 17, 2023 and February 28, 2023, the Special Internal Control Consultant did not have any further recommendation and is of the view that the internal control measures with respect to education and promotion of fire safety awareness for distributors/sub-distributors and end customers, and response mechanism for major accidents we currently have in place, if implemented on a continuous basis, are effective and adequate in reasonably reducing the likelihood of reoccurrence of similar incidents due to inadequate promotion of fire safety to distributor/sub-distributors and end consumers or failure to respond to major accidents in a timely manner.

Having considered the above and based on the due diligence work conducted by the Sole Sponsor, the Sole Sponsor concurred with the views of the Special Internal Control Consultant that the Group's internal control measures with respect to education and promotion of fire safety awareness for distributors/subdistributors and end customers, and response mechanism for major accidents that the Group currently has in place, if implemented on a continuous basis, are effective and adequate in reasonably minimizing re-occurrence of similar incidents.

DISTRIBUTOR ADMINISTRATIVE PENALTY DECISIONS

Background

PRC administrative agencies, including local branches of the SAMR, conduct periodic inspections of products in the market, including electric two-wheeled vehicles, and issue administrative penalty decisions (行政處罰) with respect to sales of non-conforming products from time to time. Based on publicly available information and confirmations of our distributors and their sub-distributors, we have noticed that a number of our distributors or their sub-distributors were subject to such administrative penalty decisions during the Track Record Period and up to the Latest Practicable Date.

Details of Administrative Penalty Decisions

During the Track Record Period and up to the Latest Practicable Date, to our best knowledge, a total of 121 distributors and sub-distributors were subject to 21, 45, 23, eight and 36 administrative penalty decisions for 2020, 2021 and 2022 and the four months ended April 30, 2023 and since the end of the Track Record Period and up to the Latest Practicable Date, respectively. According to the relevant administrative penalty decisions, the administrative penalties imposed by relevant administrative authorities in mainland China primarily involved non-conformance with relevant product standards or product qualification certificates in terms of, among other aspects, maximum speed, overall vehicle weight or size, pedaling function, braking distance, tire width and short circuit protection. During the Track Record Period and up to the Latest Practicable Date and based on our best knowledge, the punitive measures imposed on relevant distributors and sub-distributors primarily included suspension of sales of non-conforming vehicles, fines (the aggregated amount was approximately RMB1.5 million), forfeiture of non-conforming vehicles (the aggregated number was 118) and forfeiture of profit of sales of non-conforming vehicles (the total amount was RMB35,582).

In 2020, 2021 and 2022 and the four months ended April 30, 2023, the amount of revenue attributable to distributors who, or distributors who had sub-distributors who, were subject to administrative penalty decisions amounted to RMB115.2 million, RMB311.1 million, RMB209.1 million and RMB38.7 million, respectively, representing 4.8%, 9.1%, 4.4% and 2.3% of our total revenue, respectively, for the same years. The relatively higher percentage in 2021 was primarily because certain sub-distributors that were subject to administrative penalty decisions were sub-distributors of distributors with larger business scale. For example, as of December 2021, one of our distributors covered 82 retail outlets among which only one was subject to administrative penalty in 2021.

Based on written confirmations by the relevant distributors and sub-distributors, all penalties imposed by relevant administrative authorities in mainland China on them during the Track Record Period, have been duly settled or complied with.

To our best knowledge after making all reasonable enquiry, we and our PRC Legal Advisors (based on the public searches conducted by them and the written confirmations by the Company) are not aware of any material accidents, complaints, safety issues, warranty claims and/or litigations against the Group arising from unauthorized alterations of our products by our distributors or their sub-distributors during the Track Record Period. Based on the foregoing and the due diligence work conducted by the Sole Sponsor, the Sole Sponsor is not aware of any material accidents, complaints, safety issues, warranty claims and/or litigations due to the unauthorized alterations of the Group's products by the Group's distributors or their sub-distributors during the Track Record Period.

Administrative Penalties Related to Alteration by Distributors

Based on confirmations of our distributors and sub-distributors which were the subject of administrative penalty decisions, and the relevant administrative penalty decisions and inspection reports, the majority of such administrative penalty decisions were due to unauthorized alterations of our products by distributors or their sub-distributors. Specifically, among all administrative penalties received by distributors and sub-distributors in 2020, 2021 and 2022 and the four months ended April 30, 2023 and since the end of the Track Record Period and up to the Latest Practicable Date, 14, 36, 21, three and 29, respectively, were due to unauthorized alterations of our products by distributors or their sub-distributors. Such alterations are strictly prohibited according to our standard distribution agreements and distributor management policy and we do not authorize distributors or sub-distributors to carry out such alterations in any case. We do not provide warranty services for any damages caused by man-made reasons, such as unauthorized alterations. According to confirmations of relevant distributors and sub-distributors, they made the alterations pursuant to one or more of the following requests from customers:

(i) to increase the maximum speed of the vehicle by tampering the speed limiting program on the controller or the battery;

(ii) to alter appearance of the vehicle to enhance aesthetic appeal; and

(iii) to install add-ons, such as additional batteries, bumpers, baskets, and trunks.

All administrative penalty decisions related to unauthorized alterations by distributors or sub-distributors were issued to the respective distributors or sub-distributors and we were not subject to any administrative penalties due to these administrative penalty decisions issued to distributors or sub-distributors in relation to unauthorized alterations. In addition, all relevant electric vehicles had qualified factory inspection reports when delivered to the distributors. Our Directors further confirm that the ownership and associated legal risks were transferred to the distributors upon the delivery of conforming products. None of our Directors or employees had knowledge of, authorized, acknowledged or consented to the alterations carried out by distributors (or their sub-distributors), and we were not the subject to the administrative penalties decisions which were addressed to our distributors (or their sub-distributors) due to their unauthorized alterations. Taking the aforementioned into account, our PRC Legal Advisors are of the view that the likelihood that we will be found legally responsible for such non-compliance incidents caused by such alterations is remote. However, in practice there could be incidents where we may fail to prove, in administrative, legal or other proceedings that alleged product non-conformity were due to unauthorized alterations or where consumers associate unauthorized alterations with poor product quality. In addition, in June 2022, relevant authorities in Beijing promulgated the Beijing Electric Bicycle Product Catalog Compilation Management Regulations, (《北京市電動自行車產品目錄編製管理規程》) which regulated the compilation of the Beijing Electric Bicycle Product Catalog (《北京市電動自行車產品目錄》). Since then and up to the Latest Practicable Date, there were four incidents where our product models were removed from this catalog, prohibiting further sales of such product models in Beijing, due to unauthorized alterations by distributors/sub-distributors. Revenue contribution of these models in Beijing amounted to nil, nil, RMB1.6 million and RMB3.3 million in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively, which was relatively insignificant as compared to the overall results of our Group during the Track Record Period. However, although the removal from the Beijing catalog was in fact caused by unauthorized alterations and we have imposed disciplinary and rectification measures against the relevant distributors/sub-distributors, we have observed negative publicity regarding our product quality due to such product models being removed from the Beijing catalog. For relevant risks, see "Risk Factors – Risks Relating to Our Business and Industry – Some of our distributors have been subject to penalties for making unauthorized alterations to our products, which could adversely affect our reputation, business, financial condition, results of operations and prospects". Our Directors confirm that, to the best of their knowledge, there were no material accidents, complaints, safety issues, warranty claims and/or litigations against the Group arising from unauthorized alterations of our products during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm, as of the Latest Practicable Date, there are no ongoing investigations by any relevant regulatory authorities against our Group in relation to unauthorized alterations by distributors or sub-distributors.

Other Administrative Penalties Received by Distributors/Sub-distributors

In addition to administrative penalties due to alterations by distributors or sub-distributors, our distributors and sub-distributors were also subject to other administrative penalty decisions mainly due to (i) distributors or sub-distributors' sale of vehicles in their inventory that had been manufactured pursuant to old national standards before the implementation of the New National Standards when the New National Standards just came into effect, (ii) inconsistencies in the implementation and interpretation of the New National Standards during the transition period from the old national standards among different local government authorities, testing institutions and manufacturers, and (iii) other non-compliances of distributors/sub-distributors such as failure to display prices of products, improper installation of license plates, and making and use of noncomplying advertisement mainly due to the lack of sufficient understanding of the requirements of relevant laws and regulations, oversight of staff of retail outlets and lack of sufficient installation technique.

All administrative penalty decisions due to the reasons above other than unauthorized alterations by distributors or sub-distributors were issued to the respective distributors or sub-distributors. Our Directors confirmed that the ownership and associated legal risks weretransferred to the distributors upon the delivery of conforming products. Among these administrative penalties, four distributors/sub-distributors were subject to administrative penalties for selling non-conforming products for which Shandong Luyuan was also issued four corresponding administrative penalty decisions for manufacturing these products. Save for these four cases, no penalties or investigations were imposed on our Group during the Track Record Period due to administrative penalties issued to distributors/sub-distributors for reasons other than unauthorized alterations. For details of the four administrative penalties received by Shandong Luyuan, see "– Legal Proceedings and Compliance – Compliance – Non-compliance with PRC Law." Taking the aforementioned into account, the interviews with or the written confirmations of competent authorities, and the public searches, our PRC Legal Advisors are of the view that the likelihood that we would be subject to administrative penalties (other than the four mentioned above) due to the administrative penalty decisions received by distributors or sub-distributors for reasons other than unauthorized alterations is remote. Having considered the foregoing together with the view of the PRC Legal Advisors, the Sole Sponsor concurred that the likelihood that the Company would be subject to administrative penalties (other than the four mentioned above) due to the administrative penalty decisions received by distributors or sub-distributors for reasons other than unauthorized alterations is remote.

Enhanced Remedial and Distributor Control Measures

We have implemented a number of measures and procedures with respect to unauthorized alteration of our vehicles by distributors to manage risks and prevent re-occurrence, which mainly include the following aspects:

- ***Preventing alteration through enhanced technologies.*** We have been actively engaged in developing and adopting new technologies and designs with respect to various aspects of our vehicles including maximum speed, voltage, the controller, batteries and saddles to make our vehicles less susceptible to alteration. For example, we use overvoltage protection and other anti-tampering designs to prevent manipulation of maximum speed limits through conventional methods such as repeatedly increasing and decreasing voltage. We also lock critical parts such as motors and controllers in covers with irregularly shaped bolts that if opened abruptly without our specially designed tools may cause damage to our vehicles. The battery compartments of our vehicles are also designed to exactly fit our batteries and leave no space for others to use other larger batteries. Following recommendations of the Special Internal Control Consultant, we have also enhanced our internal policies to systemically manage technical upgrades of our vehicles and require relevant personnel to continuously focus on anti-tampering technologies throughout the lifecycle of our products and research and development process.

- ***Increasing education and management of distributors.*** We have revised our distributor management policies and standard distribution agreement to specify, among other things, that distributors are strictly prohibited from altering our products without our authorization and are obliged to inspect and check if our products conform with their CCC registration when performing after-sales services. Pursuant to our standard distribution agreement, we are entitled to warn, fine or even terminate the distribution agreementswith distributors that engage in unauthorized alteration of our vehicles. During the Track Record Period, among those that have been subject to administrative penalties for unauthorized alterations we terminated two distributors or had distributors terminate 19 sub-distributors for unauthorized alterations. With respect to those that have not been terminated, we have (i) issued warnings and required rectifications to be made within one week; (ii) suspended incentives and other supports; (iii) required them to educate and improve management over their sub-distributors and employees (as applicable); (iv) downgraded distributors to sub-distributors; or (v) required shut down of relevant retail outlets. According to our PRC Legal Advisors, such arrangements with our distributors/sub-distributors do not violate applicable PRC laws. In addition, we also report cases of administrative penalties to all distributors and sub-distributors for warning and education purpose. We also enhance site visits over relevant outlets and conduct anonymous calls to confirm whether retail outlets make alterations for consumers. Upon the implementation of enhanced internal control measures described in this section, we have not noticed any recurrence of unauthorized alterations among these distributors or sub-distributors that have not been terminated. Going forward, we expect to more stringently enforce our right to terminate non-conforming distributors under our revised standard distribution agreement, especially when we notice repetitive violations. In addition, we have enhanced education of distributors through organizing regular or random trainings on requirements of and updates to national and industry standards and reiterate that unauthorized alterations of our products are strictly prohibited. Furthermore, compliance with such requirement has also been incorporated into our periodic assessments of distributor performance and we take into account historical compliance record regarding unauthorized alteration before renewing cooperation with existing distributors and when engaging new distributors.

- ***On-site inspection.*** We require our sales staff to inspect vehicles during their regular and random site visits to retail outlets of distributors and sub-distributors. We require them to examine a number of aspects of the vehicles and whether such aspects are consistent with the relevant product certificates, including the external appearance of the vehicle and the type and specification of batteries, and whether any additional accessories were installed such as basket, backrest, tool box and bumper and whether there are any traces of unauthorized alterations. They are also required to randomly select a few vehicles for test driving to determine whether default maximum speed limits were tampered with. They are also required to submit inspection reports in our internal system for further approval and confirmation by relevant managers. Results of on-site inspections may be considered in the assessments of distributors. We have also put in place management policies with respect to distributors that fail our random inspections. In addition to on-site inspection, we also conduct unannounced cold calls from time to time to check if distributors or sub-distributors will agree to make unauthorized alterations following consumers requests. Relevant personnel are also required to conduct desktop searches to ascertain if any new administrative penalties or measures are issued against our distributors or sub-distributors.

- ***Monitoring and report.*** We have established hotlines for distributors and the public in general to report to us in a timely manner if they notice any non-conforming vehicles. We also require distributors to promptly notify us when they face inspections by relevant administrative agencies. Failure to do so will result in termination of distributorship pursuant to our policies.

- ***Consumer education.*** We emphasize on consumer education in terms of rules and regulations of electric two-wheeled vehicles, their respective features and riding safety. For example, our distributors would remind consumers not to make modifications to products to ensure safety. They will also remind consumers to wear helmets and obey traffic rules. We also post materials through our official social media account that promote safe riding and emphasize the risks of unauthorized alterations. Our product instruction manuals also clearly state that users shall not alter our products themselves and shall be solely responsible for consequences of unauthorized alterations.

We have also implemented a number of measures and procedures with respect to product conformity. For details, see "– Risk Management and Internal Control – Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents and Mitigate Risks of Fire or Major Accidents".

We have engaged the Special Internal Control Consultant to perform an independent review on the effectiveness and enforcement of our enhanced remedial and internal control measures with respect to unauthorized alterations by distributors. The Special Internal Control Consultant has recommended us to, among other things, adopt a number of measures, including those described above, to manage associated risks and prevent re-occurrence of unauthorized alterations by distributors, including (i) to review historical compliance record regarding unauthorized alteration before renewing cooperation with existing distributors and when engaging new distributors, and (ii) to further enhance distributor assessment systems including frequency of assessment, assessment standards and criteria and incentives and punishments. Our Special Internal Control Consultant conducted a follow-up review from July 25 to August 12, 2022 and from February 17 to February 28, 2023. During the follow-up review, the Special Internal Control Consultant reviewed our internal control policies, measures and procedures with respect to unauthorized alterations by distributors. The Special Internal Control Consultant also conducted unannounced on-site inspections and cold calls on certain sampled retail outlets as part of its follow-up review. Based on the follow-up review, the Special Internal Control Consultant did not have any further recommendation and is of the view that the internal control measures with respect to unauthorized alterations by distributors we currently have in place, if implemented on a continuous basis, are effective and adequate in reasonably minimizing re-occurrence of unauthorized alterations by distributors and its associated risks. Upon completion of the follow up review in February 2023, the Special Internal Control Consultant confirmed that the Group has implemented the enhanced internal control measures pursuant to their recommendations since the completion of its initial follow-up review in August, 2022.

In summary, (i) the revenue contributable to distributors who or sub-distributors who, were subject to administrative penalty decisions in relation to sales of our products only accounted for a small portion of our revenue during the Track Record Period (ii) during the Track Record Period and up to the Latest Practicable Date, only 23 distributors and 71 sub-distributors were subject to administrative penalties related to unauthorized alterations, while as of April 30, 2023 we had 1,314 distributors and over 9,600 sub-distributors in mainland China (iii) we have in place various distributor control measures, including those adopted pursuant to recommendations of the Special Internal Control Consultant as aforementioned, (iv) since the implementation of enhanced internal control measures in August 2022 and up to April 30, 2023, and to our best knowledge, only two distributors and five sub-distributors were subject to administrative penalty decisions in relation to unauthorized alterations, and (v) since the end of the Track Record Period and up to the Latest Practicable Date, and to our best knowledge, four distributors and 24 sub-distributors were subject to administrative penalty decisions in relation to unauthorized alterations.

The table below sets forth a breakdown of the number of distributors/sub-distributors which were subject to administrative penalties due to unauthorized alterations of our products after the implementation of enhanced internal control measures and up to the Latest Practicable Date by type of treatment by our Group.

	August 12, 2022 to April 30, 2023		May 1, 2023 to the Latest Practicable Date	
	Distributor	Sub-distributor	Distributor	Sub-distributor
Type of treatment				
Termination	–	4	2	24
Downgrade to sub-distributor	1[(1)]	–	–	–
Closure of relevant retail outlet	1[(1)]	–	2[(1)]	–
Rectification	–	1[(1)(2)]	–	–
Total number of relevant distributors/ sub-distributors	2	5	4	24

Note

(1) Relevant distributors/sub-distributors were required to carry out required rectifications which mainly include restoration of non-conforming products to original state, settlement of fines, submission of signed rectification reports and undertaking to compliant operations.

(2) We decided to continue our cooperation with this sub-distributor which is located in Ningbo, Zhejiang province, considering the fact that (a) this sub-distributor carried out the rectification measures as described in note (1) above proactively, i.e. undertaking such measures even before we made any requests, (b) as compared to the other sub-distributors in the same region, the performance of this sub-distributor was relatively better as shown in previous on-site evaluations, and (c) the violation was partly due to unintentional mishandling of vehicles by relevant staff.

It is noted that unauthorized alterations still occasionally occurred after the implementation of our enhanced internal control measures as described above. These incidents mostly involved new sub-distributors who were still gaining familiarity with our strict policies against unauthorized alterations. Accordingly, despite these measures, due to the fast expansion of our distribution network, continuous enrollment of new distributors, sub-distributors and their staff, as well as constant requests from retail consumers for such unauthorized alterations, we believe occasional incidents may still occur in the future. Nevertheless, we still believe our enhanced internal control measures are effective and adequate in minimizing re-occurrences and associated risks. This is evidenced by the fact that after the implementation of these measures, we were able to timely identify and address many violations before they result in administrative penalties. For example, during the four months ended April 30, 2023, through increased on-site inspections, we identified 22 incidents of unauthorized alterations and required rectifications, before these incidents could have resulted in further violations of our policies or administrative penalties if unaddressed. Compared to before, since the implementation of our enhanced internal control measures, we have also witnessed a decrease in the percentage of distributors and sub-distributors involved in unauthorised alterations.

We place considerable emphasis on administrative penalties and unauthorized alterations that occur after implementing our enhanced internal control measures, including increasing frequency of unannounced cold calls, on-site inspections and training, and imposing harsher disciplinary actions on distributors and sub-distributors involved. With respect to the aforementioned 22 incidents, rectification measures included downgrading one distributor to sub-distributor and closing three retail outlets. All other incidents were rectified as required and no further issues were discovered during follow-up inspections. We are also committed to continuously enhancing our internal control system in response to the incidents that occurred after the implementation of our enhanced internal control measures and any incidents that may occur in the future. In particular, given that new incidents mostly involved new sub-distributors still gaining familiarity with our policies, we have started to increase the frequency of on-site inspections for new distributors and sub-distributors. We have also expanded training programs to ensure new distributors, sub-distributors and their staff thoroughly understand our strict policies against unauthorized alterations from the outset.

Based on the above, our Directors are of the view that, the unauthorized alterations of our vehicles by distributors and sub-distributors and the corresponding administrative penalties did not and will not have any material impact on our financial conditions and results of operations. Having considered the above and based on the due diligence steps conducted by the Sole Sponsor, nothing has come to the attention of the Sole Sponsor for them to disagree with the views of the Special Internal Control Consultant and the Directors.

In light of administrative penalties received by distributors and sub-distributors for reasons other than unauthorized alterations and administrative penalties imposed on our Group, we also enhanced our internal control measures with respect to product quality control and compliance with product quality related rules and regulations and industry and national standards. For example, following recommendations of the Special Internal Control Consultant, we enhanced management over old product models designed in accordance with outdated national standards and remaining inventories including by keeping detailed records of discussions regarding the handling of old product models and remaining inventories to determine the effects of new national or industry standards on our products and whether any upgrade is needed. We have also implemented policies and guidelines that provide detailed procedures on internal review by relevant departments to help ensure that our existing and new products comply with the latest laws and regulations and national and industry standards and have designated personnel that update any changes in relevant laws, regulations and standards as well as local requirements from time to time. We also maintain communication with relevant authorities to ensure that our understandings of relevant laws, regulations and standards are in line with theirs. During the aforementioned follow-up review, the Special Internal Control Consultant reviewed our internal control policies, measures and procedures with respect to product quality. Based on the follow-up review, the Special Internal Control Consultant did not have any further recommendation and is of the view that the internal control measures with respect to product quality we currently have in place, if implemented on a continuous basis, are effective and adequate in reasonably minimizing re-occurrence of non-compliance incidents in relation to product quality.

LICENSES, PERMITS AND REGULATORY APPROVALS

As advised by our PRC Legal Advisors, as of the Latest Practicable Date, we had obtained all requisite licenses, permits and approvals from relevant government authorities that are material to our business operations in mainland China. Such licenses, permits and approvals remained in full effect, and no circumstances existed that would render their revocation or cancelation.

The following table sets forth the material licenses and permits currently held by us:

No.	Licenses/Permits	Holder	Issuing Authority	Issuance Date	Expiry Date
1.	Electric Motorcycle Production Enterprise Access (電動摩托車生產企業准入)	Zhejiang Luyuan, Shandong Luyuan, Guangxi Luyuan	Ministry of Industry and Information Technology	September 15, 2015 June 11, 2020 March 13, 2022	N/A
2.	Pollutant Discharge Permit (《排污許可證》)	Zhejiang Luyuan, Shandong Luyuan, Guangxi Luyuan	Jinhua Municipal Bureau of Ecology and Environment, Linyi Municipal Bureau of Administrative Examination and Approval Service, Guigang Municipal Bureau of Ecology and Environment	September 17, 2021 April 8, 2022 May 26, 2022	September 16, 2026 April 7, 2027 May 25, 2027

ENVIRONMENTAL, SOCIAL, HEALTH AND SAFETY MATTERS

Environmental Matters

We are subject to environmental laws and regulations in mainland China including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. For details, see "Regulatory Overview – Regulations Relating to Environmental Protection." We consider the protection of the environment to be important and have implemented measures in the operation of our business to promote compliance with applicable requirements under the environmental laws and regulations in mainland China. These measures include installation of new waste gas management equipment, establishment of wastewater treatment station and engaging qualified third-party waste management companies.

Improper disposal of batteries of electric two-wheeled vehicles may cause a problem to the environment. Recycling of batteries of used electric two-wheeled vehicles generally require specific licenses and are typically carried out by licensed battery manufacturers or recycling plants. As such, while we do not recycle batteries ourselves, we encourage the exchange of used vehicles for new electric two-wheeled vehicles. We have reached agreement with licensed battery manufacturers, pursuant to which they are responsible for recycling used lead-acid batteries of electric two-wheeled vehicles while we agree to assist in the collection and storage of used lead-acid batteries. In practice, given the relatively high scrap value of lead-acid batteries and the large number of qualified recyclers that provide localized recycling services for lead-acid batteries, distributors tend to engage recyclers on their own to recycle used lead-acid batteries. We guide distributors to encourage consumers to exchange used batteries for new ones, require them to properly manage the transportation, storage and disposal of used batteries and require them to check qualifications of recyclers they engage. We also have a hotline in place for distributors if they have any questions regarding battery recycling. In addition, we plan to enter into binding agreements with distributors which will require them to properly recycle and dispose of hazardous materials. Going forward, we also plan to take experience from the new energy vehicle industry regarding recycling lithium-ion batteries and have already initiated discussions with professional lithium-ion battery recyclers in this regard.

We also recognize the vital role that our supply chain partners play in environmental protection and focus on our approach to battery procurement, an area with large carbon reduction potential. We have established guidelines under our Environmental Protection and Safety Proposal distributed to suppliers that specify our ESG policies and encourage them to adopt green practices in various aspects of supplier business operations including procurement, production, waste management, storage and transportation. In addition, we have instituted a green procurement management policy, incorporating ESG-related indicators into our supplier evaluation process, further ensuring that our procurement practices align with our sustainability goals. Our procurement practices favor suppliers that demonstrate sustainable battery manufacturing practices. These practices include compliant waste treatment, utilization of environmentally friendly materials and recycled content, and dedication to improving energy use efficiency, such as optimizing energy structure by decreasing reliance on fossil energy in battery production. We also endorse the efforts our suppliers make toward promoting low-carbon technologies and favor those who offer high-energy, efficient batteries with extended lifespans that help reduce the high turnover and waste often associated with traditional batteries. In testament to our ongoing commitment, during the Track Record Period, we increased our procurement of high-energy and graphene batteries, which are known for their relatively longer lifespans compared to traditional batteries. Going forward, we intend to further standardize our battery procurement practices under our green procurement management policy, including but not limited to implementing targeted training programs for our procurement team to deepen their understanding of our green procurement principles and best practices for engaging with suppliers who prioritize environmental responsibility. We believe these trainings will ensure our team can effectively assess, select, and build relationships with suppliers who meet our sustainability expectations.

No administrative sanctions or penalties have been imposed upon us for the violation of environmental laws or regulations during the Track Record Period. Our cost for compliance with applicable environmental rules and regulations was RMB8.1 million, RMB11.5 million, RMB19.3 million and 2.8 million in 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively. The increase in 2022 was primarily due to procurement of additional environmental protection related equipment in relation to the commencement of our Guangxi Plant and the new factory at our Zhejiang Plant. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation.

Occupational Health and Safety

Our business operations in mainland China are subject to various laws and regulations relating to occupational health and work safety. For details, see "Regulatory Overview – Regulations Relating to Employment and Social Welfare."

In an effort to ensure the health and safety of our employees and to ensure compliance with applicable laws and regulations, we have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, operation safety, warehouse safety, work-related injuries and emergency and evacuation procedures. The occupational health and safety management systems of our Zhejiang Plant and Shandong Plant are ISO 45001 certified. We provide suitable and necessary protection equipment to our employees, i.e., protective suits, gloves and masks to ensure their safety during work. In addition, we provide our employees with regular occupational safety education and training sessions to enhance their awareness of safety issues. Furthermore, we inspect our production facilities from time to time in order to ensure that such facilities are safe for use.

During the COVID-19 pandemic, we endeavored to provide a safe work environment including improving ventilation, procurement of epidemic prevention materials and release of work-from-home plan and work resumption plan.

As of the Latest Practicable Date, we had complied with applicable laws and regulations on occupational health and work safety in all material respects. During the Track Record Period, we did not record any accidents that had a material impact on our business or operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Governance

We are committed to promoting corporate social responsibility and sustainable development as well as integrating these principles into all major aspects of our business operations. We consider corporate social responsibility as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders.

Our Board has the collective and overall responsibility for overseeing, evaluating, determining and addressing our ESG-related risks, and establishing, adopting and reviewing the ESG strategy, policy and target of our Group. Our Board may assess or engage independent third parties to evaluate the ESG-related risks and review our existing strategy, targets, and internal controls. Necessary improvement will then be implemented to mitigate the risks. In terms of environmental protection, we have coordinated efforts across departments including our procurement department, production department and R&D department that execute our internal environmental protection and procedures and manage environmental and climate-related risks, in particular, help reduce/minimize the use of hazardous materials, energy, and other natural resources, and to reduce/minimize the generation of waste. In addition, our labor union is responsible for coordinating social activities such as charity donations and community volunteering.

We have in place a set of internal policies with respect to ESG issues. For environmental matters, we have adopted policies which cover, among other things, (i) reduction of greenhouse gas emissions, (ii) use of environmentally friendly resources and materials, (iii) treatment of waste gas, sewage and solid waste and (iv) conservation of energy. For social matters, we have established policies which cover, among other things, (i) production safety, (ii) product safety and quality, (iii) employee health, promotion, compensation, benefits and training and (iv) employee complaint handling and relevant privacy protection measures. We conduct periodic reviews to monitor our compliance with the above policies.

We also place a high emphasis on suppliers' ESG standards. Under our green procurement management policy, when selecting suppliers, we assess their ESG performance by checking their quality certifications and mechanisms in place related to environment, occupational health and safety, such as environmental management system certifications, pollutant discharge permits, special work permits, emergency responses, etc. When signing agreements with our suppliers, we provide them Environmental Protection and Safety Proposal specifying our ESG policies and key initiatives on environmental protection, occupational health and safety in a collaborative effort to promote sustainable best practices. For further details, see "– Environmental, Social, Health and Safety Matters – Environmental Matters" above.

Upon Listing, our Directors confirm that they will closely monitor and ensure strict compliance with Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of 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 environmental, social and governance aspects. To this end, we undertake to establish an ESG committee within one year after the Listing to assist our Board in overseeing ESG governance, ensure implementation of ESG policies, monitor ESG-related performance and targets, adjust ESG strategies and prepare the ESG report. In addition, we also plan to establish an ESG task force team to support our Board and the ESG committee in implementing ESG policies, targets and strategies, conducting materiality assessments of environmental, social and climate-related risks, assessing corresponding responses, collecting ESG data for the ESG report, and continuously monitoring the implementation and effectiveness of measures adopted to address our ESG-related risks and responsibilities. The ESG committee and the ESG task force team are expected to report to our Board periodically on the ESG performance of our Group, the effectiveness of our ESG systems and recommendations, if any.

Potential Impact of ESG-related Risks and Responses

We place a heightened focus on environmental, social and climate-related matters and their impact on our business operations and financial performance. We have identified that the environmental, social and climate-related matters that may present us with various risks and opportunities include (i) risks related to the physical impacts of climate change and (ii) risks related to the transition to a lower-carbon economy.

(i) Physical risks from climate change

In recent years, climate change has led to more frequent extreme weather which has brought forward physical risks with financial implication. For example, typhoons and floods caused by heavy rains as well as other natural disasters may have a negative impact on normal production activities and supply chain stability, causing production and delivery delays. We have formulated emergency plans for extreme weather, combining weather forecasts and other information to ensure safety at our production plants, offices and retail outlets. We also continuously monitor our supply chain and assess potential or alternative suppliers to mitigate damages from such identified physical risks.

(ii) Transition risks to a lower-carbon economy

During the transition to a lower-carbon economy, extensive policy, legal, technology and market changes may take place to address mitigation and adaption requirement related to climate change. Transition risks related to policy and legal changes include any risk that the environmental laws and regulations in the PRC may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. In response, we arrange trainings for relevant employees to keep them abreast of the development and dynamics of changing policies and regulations and help us plan in advance for compliance.

In addition, the market may push for low-carbon products which will force companies to develop more low-carbon technologies and products and increase related research and development expenses. We continue to improve the performance of our electric two-wheeled vehicles and focus on research and development of products with lower energy consumption, enhanced durability and longer battery life; for example, our in-house developed liquid-cooled motor technology increases the motor's working efficiency to over 90%, and thus achieves long driving range for our products and significantly improves the service life of our vehicles and the batteries.

Furthermore, increasing prices of traditional energy may also impose higher costs on production and result in challenges for companies in accessing renewable energy. We been actively advocating photovoltaic power generation and have equipped the rooftops of our Zhejiang Plant and Guangxi Plant with relevant technologies and equipment which allow them to generate power for their operations and even send surplus energy back to the electric grid.

(iii) Opportunities

Despite the above-mentioned physical and transition risks, we also believe that climate change may bring about opportunities to our business operations. The PRC government announced its dual objectives of "carbon emission peak" (碳達峰) and "carbon neutrality" (碳中和) at the seventy-fifth United Nations General Assembly. We intend to take advantage of such dual objectives, other favorable policies and consumers' growing awareness of carbon emissions and climate matters, actively promote the reduction of our carbon footprint throughout the entire life cycle of our products and establish a positive brand image.

Environmental Protection

We recognize the importance of environmental protection and sustainability, and our commitment to environmental protection and sustainability was recognized by the fact that we were recognized as Zhejiang Province Clean Production Achievement Enterprise (浙江省清潔生產階段性成果企業) in 2016 by the Zhejiang Economic and Information Commission (浙江省經濟和信息化委員會) and Zhejiang Environmental Protection Department (浙江省環境保護廳) and Zhejiang Water-saving Enterprise (浙江節水型企業) in 2019 by the Zhejiang Economic and Information Commission and Zhejiang Housing and Urban-Rural Development Department (浙江省住房和城鄉建設廳).

In line with our vision for sustainable development, we oversee our environmental protection performance in aspects such as pollutant management and the use of electricity and water.

Pollutant Management

- *Management of Sewage*. We generate sewage during the production process. We have installed sewage treatment systems at our production facilities to monitor and reduce the discharge of sewage. Water used in our paint spraying process can be diluted with fresh water and recycled until reaching a certain concentration level and needs to be discharged. We monitor our sewage discharge levels on a periodic basis. In 2020, 2021 and 2022 and the four months ended April 30, 2023, our sewage discharge levels were 67,402 tons, 64,647 tons, 64,757 tons and 27,878 tons, respectively, and such sewage was properly treated prior to discharge.

- *Management of Solid Waste***.** We generate solid waste (including certain hazardous substances) during our production processes, including sludge from surface treatment, waste paint residue, spent activated carbon and used filter cotton. We adopt various measures to minimize the environmental impact including, among others, (i) we optimize product designs, parts usage, and production techniques to minimize hazardous materials consumption and waste generation. This includes using alternative materials when possible, reusing materials where feasible, and improving application efficiency; (ii) we properly store different hazardous wastes separately and in accordance with the "Pollution Control Standards for Hazardous Wastes Storage" GB18597-2023; (iii) we look for opportunities to recycle and repurpose any solid or hazardous waste to keep materials in productive use, such as reusing undamaged containers; and (iv) we evaluate key production processes to remove unnecessary steps, tighten control points and reduce excess components with an aim to minimize waste from inefficiency, excess inventory and spoilage etc. We engage qualified third-party waste treatment companies to collect industrial hazardous waste and ordinary waste. Domestic solid waste is collected by the city sanitation department. According to our arrangements with qualified waste treatment companies, we discharged approximately 435 tons, 386 tons, 615 tons and 191 tons in 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively.

- *Management of Waste Gas*. We generate waste gas during the production process and have invested in upgrading our waste gas equipment and technologies to help test the level of our waste gas emission and ensure that it is within the permitted range as stipulated by relevant laws and regulations. On the one hand, our Guangxi Plant and Shandong Plant adopted activated carbon adsorption and desorption technology to achieve qualified emission. On the other hand, our Zhejiang Plant adopted a rotary adsorption technology to achieve qualified emission.

Resource Consumption

- *Electricity consumption***.** We have been actively advocating photovoltaic power generation and have equipped the rooftops of our Zhejiang Plant and Guangxi Plant with relevant technologies and equipment which allow them to generate power for their operations and even send surplus energy back to the electric grid. During the Track Record Period, such photovoltaic power generation roofs generated a total of 9.4 million kWh of electricity. In 2020, 2021 and 2022 and the four months ended April 30, 2023, our electricity consumption amounted to 16,174.2 MWh, 20,941.6 MWh, 26,765.3 MWh and 10,009.1 MWh, respectively, representing 11.0, 10.7, 11.0 and 10.8 kWh per vehicle sold for the same years, respectively.

- *Water consumption*. In 2020, 2021 and 2022 and the four months ended April 30, 2023, our water consumption amounted to 193,436 tons, 236,188 tons, 353,139 tons and 140,639 tons, respectively, representing 0.13, 0.12, 0.15 and 0.15 ton per vehicle sold for the same years, respectively. Our water saving measures mainly focus on recycling water used in the painting process. For example, our wastewater treatment station reduces the consumption of fresh water during the painting process by leveraging a reclaimed water reuse system and a paint mist capture system.

- *Packaging materials*. Our packaging materials primarily include cardboard boxes, wooden frames, PE packaging bags, bubble wrap and PE foam. When delivering products to distributors, for those that are located closer to our production bases, we only use PE packaging bags, bubble wrap and PE foam to reduce the amount of cardboard boxes and wooden frames. In 2020, 2021 and 2022 and the four months ended April 30, 2023, our packaging materials amounted to 4,852.2 tons, 5,738.5 tons, 6,568.9 tons and 2,551.6 tons, respectively, representing approximately 2.0, 1.7 and 1.6 and 2.8 kg per vehicle sold for the same years, respectively.

Other Social Matters

We have been and will continue to be highly committed to sustainable corporate responsibility projects through various charitable endeavors for different social causes. We have a comprehensive corporate-level charity plan. During the Track Record Period, we donated approximately RMB2.9 million in total for charitable purposes. For example, from time to time we make donations to Luyuan Orphan Care and Growth Fund (綠源關愛孤兒成長基金) which we established in 2009 and other charities. We also leverage our expertise in production and manufacturing and provide training to local students and residents in collaboration with schools to help alleviate local employment pressure.

During the outbreak of COVID-19, we proactively participated in various activities and campaigns, including donating epidemic prevention supplies to hospitals and relevant organizations in various locations such as Shanghai and Wuhan to help combat the spread of COVID-19.

We focus on embracing diversity within our Group and have adopted a board diversity policy which takes a wide variety of factors into account including professional experience, knowledge, gender, age and cultural background. We also promote diversity and equal treatment of all our employees and continuously invest in the training and promotion of career development of our employees. We have established a comprehensive training and development system covering corporate culture, employee rights and responsibilities, job performance, technical skills and safety management. We care about both physical and mental health of our employees and organize body check-ups and organize various entertainment activities and promote work-life balance.