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## INDUSTRY OVERVIEW

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*Certain information and statistics set out in this section and elsewhere in this document are derived from various official government and other publicly available sources, and from the market research report prepared by CIC, an independent industry consultant which was commissioned by us (the “CIC Report”). No independent verification has been carried out on the information from official government sources by us, the Sole Sponsor, the [REDACTED], [REDACTED], [REDACTED], [REDACTED], the [REDACTED] or any other parties (other than CIC) involved in the [REDACTED] or their respective directors, officers, employees, advisers, or agents, and no representation is given as to the accuracy. Unless and except for otherwise specified, the market and industry information and data presented in this “Industry Overview” section is derived from the CIC Report.*

### SOURCE OF INFORMATION

We commissioned CIC, an independent industry consultant founded in Hong Kong and engaged in the provision of professional consulting services across multiple industries, to conduct an analysis of and to report on the automobile finance market in China. The CIC Report was prepared by CIC independent of our influence. The total fee paid for the preparation of the CIC Report in relation to the [REDACTED] since the first [REDACTED] application is expected to be RMB1,660,000, which we consider to be in line with market rates.

The information and data collected by CIC have been analysed, assessed, and validated using CIC’s in-house analysis models and techniques. Primary research was conducted through interviews with key industry experts and leading industry participants. Secondary research involved the analysis of market data obtained from several publicly available data sources, such as the China Association of Automobile Manufacturers and National Bureau of Statistics of China. The methodology used by CIC is based on the analysis of information gathered from multiple sources and ensuring such information is cross-referenced and corroborated for both reliability and accuracy. The CIC Report contains a variety of market projections which were produced based on the following key assumptions: (i) the overall social, economic and political environment in China is expected to remain stable during the forecast period; (ii) related key industry drivers are likely to propel continued growth in China’s retail automobile finance lease market throughout the forecast period, including increases in the popularity of retail automobile finance lease products, an improved legal and regulatory environment, simplified lease application processes, and enhanced risk control systems; (iii) the negative impact caused by the COVID-19 outbreak in 2020 on the industry is expected to be limited, taking into account the impact of the COVID-19 outbreak and market growth from 2021 to 2022 in a conservative manner based on the industry and economic recovery in China; and (iv) there are no extreme force majeure or unforeseen industry regulations which the market may be affected in a dramatic or fundamental way.

Our Directors after taking reasonable care, confirm that to the best of their knowledge, there is no material adverse change in the market information since the date of the relevant data contained in the CIC Report and up to the Latest Practicable Date which may qualify, contradict or have an impact on the information in this section.

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### OVERVIEW OF THE AUTOMOBILE INDUSTRY IN CHINA

#### Total Car Parc in China

The total car parc in China has expanded steadily, with the number of automobiles increased from 240.3 million units in 2018 to 319.0 million units in 2022, representing a CAGR of 7.3% between 2018 and 2022. With the continued increase in per capita disposable income, total car parc in China is expected to reach 407.1 million units by 2027, representing a CAGR of 5.0% between 2022 and 2027. In line with the increase in total car parc, the car parc per thousand people is expected to continue to increase from 225.9 units in 2022 to 289.9 units by 2027, representing a CAGR of 5.1% between 2022 and 2027.

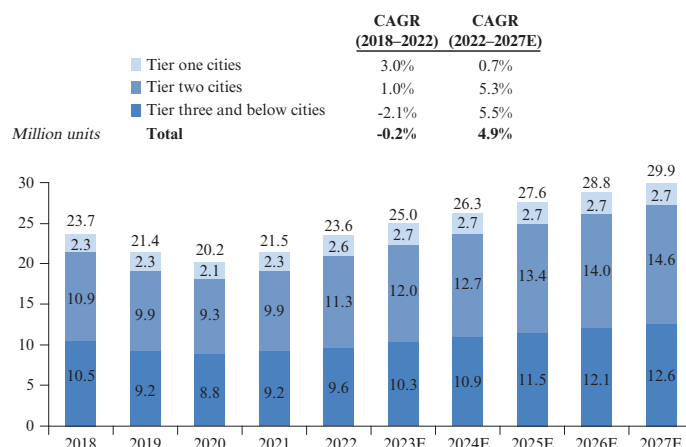
Along with China’s anticipated economy growth and evolving consumption behaviour, automobile market in China has gradually entered a new stage of steady growth momentum rather than rapid growth in the past two decades. It is expected that, among others, retail automobile finance starts to become a major driving force for China’s automobile industry.

China is the largest automobile market in the world, with approximately 23.6 million units of new automobile sold in 2022. However, car parc per thousand people was approximately 225.9 units in 2022, which is still lower than that in the US, which was approximately 890.0 units in 2022, indicating room for further growth. The sales volume of new automobile in China decreased from 23.7 million units in 2018 to 20.2 million units in 2020. The decrease from 2018 to 2020 was mainly due to the abolition of preferential purchase tax, weakening consumption needs, and market sentiment resulting from trade friction between China and the United States. Further, as COVID-19 spread in 2020, many workers in automobile industry remain quarantined at home, causing automobile supply lines to be significantly affected, with many factories struggling to reopen or regain full capacity. As a result, the sales volume of new automobiles decreased by 5.9% in 2020 compared to 2019. However, along with the rollout of favourable policies and regulations by Chinese government, and the steady increase in the disposable income of consumers, the sales volume of new automobiles increased to 23.6 million units in 2022 and is expected to reach 29.9 million units by 2027, representing a CAGR of 4.9% between 2022 and 2027.

The sales volume of new automobiles in tier one cities fluctuated from 2.3 million units in 2018 to approximately 2.6 million units in 2022, representing a CAGR of 3.0% between 2018 and 2022, while it is expected to increase to 2.7 million units by 2027. The sales volume of new automobiles in tier two cities increased from 10.9 million units in 2018 to 11.3 million units in 2022, representing a CAGR of 1.0% between 2018 and 2022, and is expected to increase to 14.6 million by 2027, representing a CAGR of 5.3% from 2022 to 2027. The sales volume of new automobiles in tier three and below cities decreased from 10.5 million units in 2018 to 9.6 million units in 2022, representing a negative CAGR of 2.1% from 2018 to 2022. Driven by the expected increase in consumer disposable income and automobile consumption of tier three and below cities compared to tier one and tier two cities, tier three and below cities are expected to demonstrate stronger automobile sales growth momentum than tier one and tier two cities. The total sales volume of new automobiles in tier three and below cities is estimated to reach 12.6 million units in 2027, representing a CAGR of 5.5% from 2022 to 2027.

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### Total sales volume of new automobiles, by city tier, China, 2018–2027E

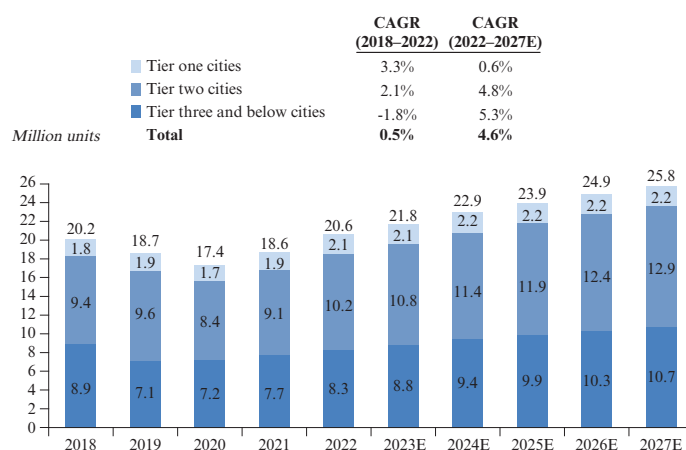


Source: China Association of Automobile Manufacturers, CIC Report

Note: The figures of the chart have been rounded up to one decimal place.

Non-luxury automobiles account for a substantial proportion of the automobile market in China. Luxury automobiles include most of the models which are generally sold at the manufacturer’s suggested retail price (MSRP) over RMB300,000 per vehicle in China, while non-luxury automobiles include most models which are generally sold at the MSRP up to RMB300,000 per vehicle.

### Total sales volume of non-luxury automobiles, by city tier, China, 2018–2027E



Source: China Association of Automobile Manufacturers, CIC Report

Note: The figures of this chart have been rounded up to one decimal place.

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### Market Drivers of the Automobile Industry in China

- *Increasing per capita disposable income of urban households*

Given the steady economic growth in China, annual per capita disposable income continues to increase, especially in tier three and below cities. Therefore, an increasing number of urban households are able to purchase automobiles due to consumption upgrade. In addition, with growing urbanisation, consumption demand for automobiles as necessity goods for daily transportation is expected to increase in China.

- *Increasing popularity of retail automobile finance and retail automobile finance lease services*

The development of retail automobile finance and retail automobile finance lease services enabled an increasing number of consumers to purchase automobiles in China. Retail automobile financing services encourage people to purchase automobiles by offering various financing products which lower the initial payment and credit record requirement for purchasing automobiles. It is therefore expected that the trend will ultimately support future growth of the automobile market in China.

- *The emergence of automobile e-commerce platforms*

The emergence of automobile e-commerce platforms not only simplify the purchase process for consumers, but also provides more diversified automobile-related services to consumers from pre-sale stage to after-sale stage, such as retail automobile financing services, automobile insurance and maintenance and other related services. Therefore, the development of automobile e-commerce platforms provides new vitality for the automobile market in China.

## ANALYSIS OF THE RETAIL AUTOMOBILE FINANCE AND RETAIL AUTOMOBILE FINANCE LEASE MARKET IN CHINA

### Overview of the Retail Automobile Finance Market in China

Retail automobile finance refers to financial products and services that allow consumers to acquire an automobile by making appropriate financial arrangements rather than settling the acquisition cost in full immediately. Broadly speaking, the form of retail automobile finance services are categorised into (i) automobile loan and (ii) automobile lease (i.e. retail automobile finance lease). Retail automobile finance lease refers to a contractual arrangement where the lessee pays the lessor on a regular basis for the use of vehicle. By the end of the lease term, the lessee has the option to buy the vehicle by paying the contracted residual value. Retail automobile finance lease services providers in China consist of banks-affiliated RAFLCs, automaker or automobile dealer-affiliated RAFLCs and third party RAFLCs. It is also a common industry practice for an automobile finance lease service provider to provide matching service to automobile user consumers.

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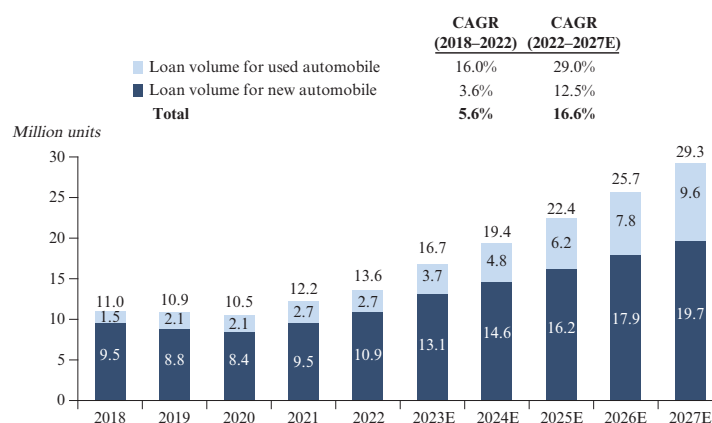
The table below sets out comparisons of characteristics of retail automobile finance services:

		Difference of service offering	Down payment	Option to return or buy	Monthly payment
Retail automobile finance	Auto mobile lease	<ul style="list-style-type: none"> <li>An automobile lease is a contract to rent an automobile for a fixed period of time and for a fixed payment term. Consumers are able to choose to whether purchase at residual value or return the vehicle when the contract expires.</li> </ul>	Typically 10%–30% of the vehicle price	The consumers have the right to decide whether to buy or return the vehicle at the end of the lease term	Relatively high
	Auto mobile loan	<ul style="list-style-type: none"> <li>The financial institutions offer consumers the capital to pay for the purchase of the automobiles. Consumers pay monthly mortgages and interests back to financial institutions.</li> </ul>	Typically 20%–40% of the vehicle price	Purchase only	Relatively low

### Market Size of the Retail Automobile Finance Market in China

The retail automobile finance market has undergone a period of moderate growth over the past five years. In terms of loan volume for new and used automobile, the market size increased from 11.0 million units in 2018 to 13.6 million units in 2022, representing a CAGR of 5.6%. It is expected that the loan volume of the retail automobile finance market will continue expanding throughout the next five years to reach 29.3 million units by 2027, driven by accommodating government policies and a growing demand for automobiles and diversified automobile financing products.

#### Market size of the retail automobile finance market in terms of loan volume<sup>1</sup>, China, 2018–2027E



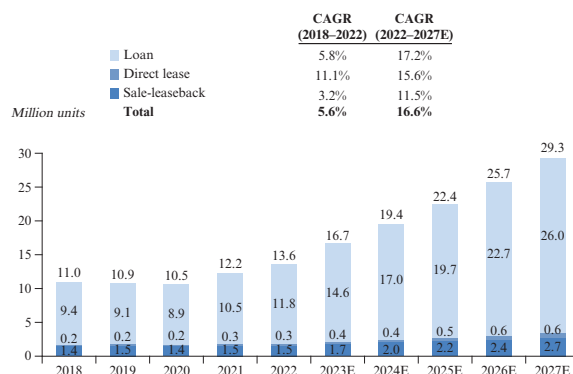
Source: China Association of Automobile Manufacturers, China Automobile Dealers Association, CIC Report

Notes:

- 1: Loan volume refers to the total number of loans for both new and used automobiles disbursed by retail automobile finance service providers.
- 2: The figures of the chart have been rounded up to one decimal place.

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### Market size of the retail automobile finance in terms of loan volume, by type of finance, China, 2018–2027E



*Source: China Association of Automobile Manufacturers, China Automobile Dealers Association, CIC Report*

### Penetration Rate of Retail Automobile Finance Lease Services

The penetration rate refers to the ratio of the loan volume of the retail automobile finance lease serving of both new and used automobiles to the overall automobile sales volume. In 2022, compared with developed countries where the retail automobile finance lease services penetration rates of both new and used automobile were approximately 38.0%, 25.5% and 23.5% in the United States, Germany and France, respectively, China’s penetration rate of retail automobile finance lease services of both new and used automobiles is still at a relatively low level, indicating a strong growth potential and is expected to reach approximately 5.4% in 2027. The relatively low penetration rate in China is mainly due to (i) consumers’ risk averse attitude towards car ownership in finance lease arrangement; and (ii) people’s unawareness of automobile finance services.

### Market Size of the Retail Automobile Finance Lease Market in China

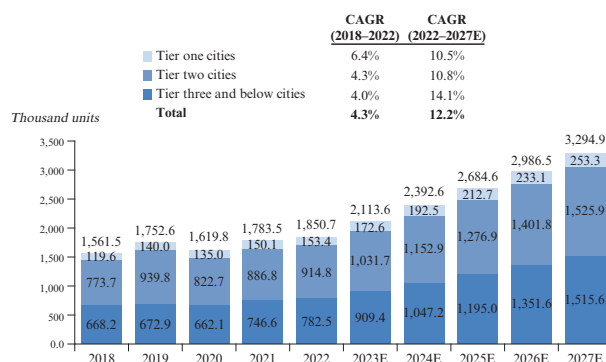
In 2022, the loan volume of retail automobile finance lease of both new and used automobiles in China had reached approximately 1.9 million units, increased from approximately 1.6 million units in 2018, representing a CAGR of 4.3%. Driven by increasing market penetration of the retail automobile finance lease products offering, the market size of retail automobile finance lease in terms of the loan volume is expected to reach approximately 3.3 million units in 2027, representing a CAGR of 12.2% from 2022 to 2027.

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The retail automobile finance loan volume of both new and used automobiles in tier two cities increased from approximately 0.8 million units in 2018 to approximately 0.9 million units in 2022, representing a CAGR of 4.3% between 2018 and 2022. Driven by the continuous increasing market demand and loose restrictions on car purchase than that of tier one cities, the retail automobile finance lease volume in tier two cities is projected to reach approximately 1.5 million units in 2027, representing a CAGR of 10.8% from 2022 to 2027.

For tier three and below cities, the loan volume of the retail automobile finance lease services of both new and used automobiles increased from 0.7 million units in 2018 to 0.8 million units in 2022, representing a CAGR of 4.0% from 2018 to 2022. Driven by the development of urbanisation and the increase in personal disposable income, the market share of retail automobile finance lease services in tier three and below cities is expected to have a strong growth potential. Consumers in tier three and below cities are more inclined to choose retail automobile finance lease services in the car purchase process, which reduces their financial pressure and offers them with more flexible payment schedule of vehicles rather than a rigid one-off purchase. The loan volume of the retail automobile finance lease market in tier three and below cities is expected to reach approximately 1.5 million units in 2027, representing a CAGR of 14.1% from 2022 to 2027.

### Market size of the retail automobile finance lease market in terms of loan volume, by city tier, China, 2018–2027E



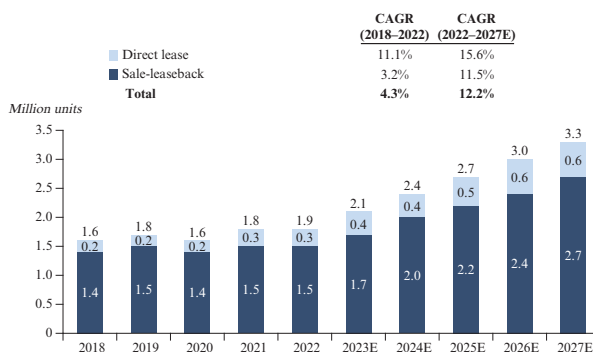
Source: China Association of Automobile Manufacturers, China Automobile Dealers Association, CIC Report

Note: The figures of the chart have been rounded up to one decimal place.



## INDUSTRY OVERVIEW

### Market size of the retail automobile finance in terms of loan volume, by type of finance lease, China, 2018–2027E



Source: China Association of Automobile Manufacturers, China Automobile Dealers Association, CIC Report

Note: The figures of the chart have been rounded up to one decimal place.

By the ownership of the automobile, the retail automobile finance lease market can be further divided into two segments including direct finance lease, and sale-leaseback. Specifically, direct finance lease is a type of retail automobile finance lease where the lessor purchases an automobile and then leases the automobile to the lessee for use, while in the sale-leaseback mode, the lessee purchases an automobile using lessor’s financing, and transfers its title to the lessor, and then the lessor leases the automobile back to lessee for use.

In 2022, the loan volume of the direct finance lease market reached 0.3 million units increasing from 0.2 million units in 2018, representing a CAGR of 11.1% from 2018 to 2022. Meanwhile, in 2022, the loan volume of sale-leaseback market increased from 1.4 million units in 2018 to 1.5 million units in 2022, representing a CAGR of 3.2% from 2018 to 2022. Driven by benefit of lower down payment and the expansion of e-hailing vehicle platform, the loan volume of direct finance lease market is expected to reach 0.6 million units in 2027, representing a CAGR of 15.6% from 2018 to 2022.

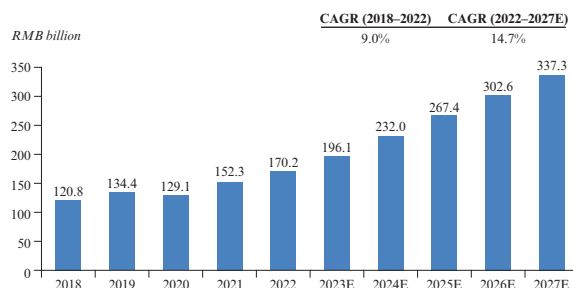


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### Market size of the retail automobile finance lease market in terms of disbursed loan value<sup>1</sup>, China, 2018–2027E



Source: China Association of Automobile Manufacturers, China Automobile Dealers Association, CIC Report

Notes:

- 1: Loan value refers to the principal amount of loans disbursed by RAFLCs.
- 2: The figures of this chart have been rounded up to one decimal place.

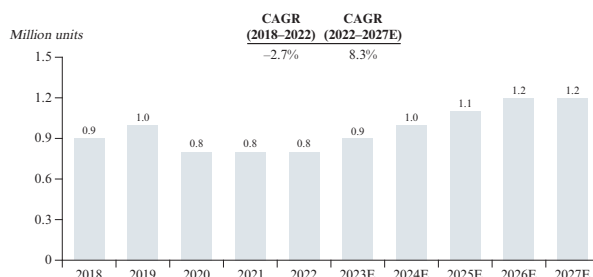
The market size in terms of the disbursed loan value of retail automobile finance lease in China has increased from approximately RMB120.8 billion in 2018 to approximately RMB170.2 billion in 2022, at a CAGR of 9.0%. As the market size of the retail automobile finance lease market for new automobile contributed to approximately 80.9% of the total market size of the retail automobile finance lease market in terms of disbursed loan value in China in 2022 and is expected to remain at the largest proportion of approximately 71.6% in 2027. Furthermore, in 2027, the disbursed loan value is expected to reach approximately RMB337.3 billion, representing a CAGR of 14.7% from 2022 to 2027.

### Analysis of Third Party Retail Automobile Finance Lease Market in China

In 2022, the loan volume of third party retail automobile finance lease market in China reached approximately 0.8 million units, decreasing from 0.9 million units in 2018, representing a negative CAGR of –2.7%. Driven by the increasing market penetration of the third party retail automobile finance lease products offering, the market size of third party retail automobile finance lease market is anticipated to reach approximately 1.2 million units in 2027, representing a CAGR of 8.3% from 2022 to 2027.

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### Market size of the third party retail automobile finance lease market in terms of loan volume<sup>(Note)</sup>, China, 2018–2027E



Source: China Association of Automobile Manufacturers, China Automobile Dealers Association, CIC Report

Note: The loan volume of the third party retail automobile finance lease market represents the volume of automobile sold through third party RAFLCs.

### Market Drivers of the Retail Automobile Finance Lease Market in China

- **Rising consumer awareness of retail automobile finance lease services**

Retail automobile finance lease, as an emerging segment in the retail automobile finance market, has become increasingly acceptable to consumers in China. Benefited from the emergence of Internet-backed RAFLCs, automobile finance lease services had gradually been accepted as an alternative option for purchasing automobiles apart from acquiring auto loans directly from financial institutions. Along with the increase in consumer disposable income, consumers can afford and are more willing to purchase automobiles, and due to the low down payment and flexible payment arrangements, consumers will prefer automobile finance lease services, especially for those consumers who are underserved by financial institutions. With the increase in consumer disposable income and the introduction of flexible automobile finance lease products, the market penetration rate of retail automobile finance lease over the past few years has been increasing and the penetration rate is expected to increase further in the foreseeable future.

- **Enhanced risk control systems**

Both third party platforms' credit data and commercial banks' credit rating system are now accessible to RAFLCs, which provide an efficient and accurate client qualification verification system for the purposes of improved risk control management. Along with the access to big data, statistics and individual's behavioural analytics, the RAFLCs are able to assess the qualifications of leasing applicants more effectively.

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- ***Favourable policies and regulations***

The penetration rate of retail automobile finance lease industry will continue to enhance amid favourable regulations. For example, in July 2022, 17 departments including Ministry of Commerce jointly issued Notice on Several Measures for Vitalizing Automobile Circulation and Expansion on Automobile Consumption 《關於搞活汽車流通擴大汽車消費若干措施的通知》. In the policy of Notice on Several Measures for Vitalizing Automobile Circulation and Expansion on Automobile Consumption, the government has encouraged the financial institutions to increase funding supply in automobile consumer loans and optimise the down payment, interest rate and repayment period, which will directly increase the penetration rate of automobile finance and automobile finance lease. Furthermore, the policy also encouraged the automobile manufacturers, and automobile distributors to collaborate with automobile finance and automobile finance lease companies to increase supply in automobiles, which will stimulate the sales volume of automobiles with automobile finance and automobile finance lease. To stimulate the consumption of new energy vehicles, the policy encouraged to extend the tax exemption policy for new energy vehicle purchases. In order to revitalize the used automobile market, the policy eliminated unnecessary restrictions in the used automobile transaction process, stated that companies can operate dealerships business of used automobiles across different regions, and further standardize the administration process for used automobiles nationwide, such as cross-region registration. The new policy aimed to improve the efficiency of used automobile transactions and stimulate the demand for used automobiles.

- ***Online platforms and mobile applications stimulating consumption demand***

With the increasing popularity of internet and mobile applications, offline retail stores are no longer the only approach for consumers to apply for retail automobile finance lease services. Online platforms have enabled consumers to access different retail automobile finance lease product and complete their retail automobile finance lease arrangements more efficiently and conveniently. Thus, online platforms have stimulated the automobile finance lease market by offering efficient online approval and payment process to facilitate the retail automobile finance lease transactions.

### **Market Players of Retail Automobile Finance Lease Business in China**

Three types of players constitute the majority of the retail automobile finance lease market in China, including bank-affiliated, automaker or automobile dealer affiliated and third party RAFLCs. In 2022, third party RAFLCs accounted for approximately 45.1% of the total transaction volume of the retail automobile finance lease market, among which, offline third party RAFLCs, who are generally offline business-initiated companies and have stronger offline presence, and internet-backed third party RAFLCs, who primarily focus on developing online automobile retail transaction platform and network, accounted for 16.8% and 28.3%, respectively.

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The table below outlines comparisons between the different players in China’s retail automobile finance lease market:

	Bank-affiliated	Automaker or automobile dealer-affiliated	Third party RAFLCs	
			Offline RAFLCs	Internet-backed RAFLCs
Number of players (as at 31 December 2022)	● ~35	● ~50	● ~45	● ~40
Primary regulatory body	● CBIRC	● CBIRC	● CBIRC	● Financial regulatory department
Time required for approval process	● Generally more than two days	● Generally less than half a day	● Generally less than half a day	● Generally one to two hours
Risk control	<ul style="list-style-type: none"> <li>● Based on consumer credit rating database from PBOC</li> <li>● High credit requirement of collateral or other tangible assets certificate from vehicle purchasers from PBOC</li> </ul>	● Based on consumer credit rating database from PBOC	<ul style="list-style-type: none"> <li>● Based on comprehensive consumer credit rating database from PBOC, third party and self-owned platforms</li> <li>● On-site inspections</li> </ul>	<ul style="list-style-type: none"> <li>● Based on comprehensive consumer credit rating database from PBOC, third party and self-owned platforms</li> <li>● On-site inspections</li> </ul>
Sales channel	● Lacking offline channels and sales networks to reach retail automobile finance lease customers	● Reach end customers through automobile stores	● Reach diverse end customers through self-operated shops	● Reach diverse end customers through self-operated shops with promotions on the online channels
Consumer experience	● Lacking professional experience in automobile-related services	● Professional services and deep understanding in consumer demands	● Deep understanding in consumer demands	● Limited understanding in consumer demands
Target customer	● Customers with super prime credit profiles, generally located in tier one and tier two cities	● Customers with super prime credit profiles, generally located in tier one and tier two cities	● Customers with prime credit profiles, generally located in tier two, tier three and below cities, young populations	● Customers with prime credit profiles, generally located in tier two, tier three and below cities, young populations
Range of effective interest rate of newly entered finance lease agreements	● 5%–15%	● 6%–16%	● 8%–24%	● 9%–24%

Source: Ministry of Commerce, CBIRC, CIC Report

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Compared to other peers, particularly internet-backed RAFLCs, offline RAFLCs have advantages in its offline capability and risk management system. With offline outlets, offline RAFLCs can foster trust with customers through face-to-face consultations and services, and therefore enhance offline RAFLCs’ abilities in customer acquisition, customer relationship management and customer retention. Furthermore, through offline interactions including in-person communication and document verification, offline RAFLCs can enhance the effectiveness of risk management process.

### Entry Barriers of Retail Automobile Finance Lease Business in China

- ***Risk management***

Retail automobile finance lease lowers the entry barrier for consumers on automobile loan by setting lower requirement for the official credit records and requiring less down payment, which brings higher default risk for automobile finance lease market players on loan repayment and damage and loss of leased automobiles. Thus, risk management is vital to those who wish to enter the retail automobile finance lease industries. A comprehensive risk management system should be able to assess and manage credit risks during pre-financing and post-financing stage.

- ***Sales channel and client acquisition***

The ability of developing comprehensive sales channel and customer acquisition is fundamental in entering the retail automobile finance lease industry. For sales channel development of offline players, building up one’s own sales channel requires high financial investment, time and operational capability. In addition, customer acquisition has proven to be time costly and it is difficult for new market entrants to build brand recognition.

- ***Financing capacity***

Retail automobile finance lease is a capital intensive industry. Besides the sales channel developing and marketing cost, a retail automobile finance lease company needs immerse liquidity to deal with cash flow mismatch in business operation. Except those companies which are state-owned or bank-affiliated or well established RAFLCs, fund raising for most entrants is difficult, especially in coping with stricter regulations and anticipated slowing economy growth. Commercial banks find it difficult to provide a large line of credit to new market entrants with a small scale of business and without endorsement. On the other hand, fundings from non-bank financial institutions usually have higher interest rates, which limits the profitability of new market entrants<sup>(Note)</sup>.

*Note:* As defined by Implementing Measures of the China Banking and Insurance Regulatory Commission for Administrative Licensing Matters relating to Non-banking Financial Institutions (《中國銀保監會非銀行金融機構行政許可事項實施辦法》), non-bank financial institution includes trust company (金融資產管理公司), enterprise group financial companies (企業集團財務公司), finance leasing companies (金融租賃公司), automobile finance companies (汽車金融公司), currency brokerage companies (貨幣經紀公司), consumer financial company (消費金融公司) and representative offices of foreign non-bank financial institutions based in China (境外非銀行金融機構駐華代表處等機構) set up under the approval of CBIRC.

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### COMPETITIVE LANDSCAPE OF RETAIL AUTOMOBILE FINANCE LEASE INDUSTRY

China’s retail automobile finance lease industry is relatively concentrated, and the current market concentration of China’s licensed third party automobile finance lease market in terms of transaction volume is relatively high. As of 31 December 2022, the top 20 companies in China’s retail automobile finance lease market had a market share of approximately 81.1%, and the top 10 companies in China’s third-party retail automobile finance lease market in terms of total number of loan volume disbursed by third party RAFLCs had a market share of approximately 69.5%. In 2022, our Group ranked 19th and 5th, respectively, in terms of transaction volume among all RAFLCs and third party RAFLCs, and ranked 4th among all RAFLCs in terms of transaction volume of direct finance lease. The RAFLCs generally take into account several key factors to price the finance lease agreements, including costs of financing and operating activities, and profit margin. As in 2022, the industry range of effective interest rates per annum charged by RAFLCs in China fell between 5% and 24%, and the average effective interest rate charged by the Group in 2022 was in line with the industry norm. The industry range of the average effective interest rate per annum charged by RAFLCs in China remained relatively stable during the Track Record Period. The Group was able to charge higher average interest rates for the finance lease transactions than other RAFLCs, because of its flexible product offerings, strong offline capability and developed risk management system to expand customer reach and control asset quality.

The key success factors of third party RAFLCs in China include (i) customer acquisition and distribution channels; (ii) diversification and stability of funding channels; (iii) risk management and personal credit rating system; and (iv) operation efficiency. Compared with automobile dealer-affiliated RAFLCs, the Company has advantages in wider selection of automotive brands, flexible offerings of finance lease services, and focused geographical coverage. Automotive dealers generally contract with automotive manufacturers and provide limited selection of brands to customers. Besides, automotive dealers generally rely on other financial services providers to provide financing services to their customers, and provide relatively limited or rigid financing method to their customers. Furthermore, the Company focuses on tier two and tier three and below cities in China with strong offline capability to serve target customers in these regions, while automotive dealers generally focus on tier one and tier two cities in China, with less presence of 4S stores networks in lower tier cities or counties, leading to lower penetration rate of automobile finance lease services for customers in tier three and below cities in the PRC.

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The table below sets out the rankings of the RAFLCs in terms of transaction volume of retail automobile finance lease through both direct finance lease and sale-leaseback in China in 2022:

Rank <sup>1</sup>	Rank <sup>2</sup>	Company <sup>3</sup>	Transaction volume (thousand units, approximate)	Market share <sup>4</sup> (%)	Category	Listing status
1	1	Group A	430	23.2	Third party RAFLCs	Listed
2	/	Group B	297	16.0	Bank-affiliated RAFLCs	Non-listed
3	/	Group C	120	6.5	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
4	/	Group D	83	4.5	Bank-affiliated RAFLCs	Listed
5	/	Group E	71	3.8	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
6	/	Group F	70	3.8	Bank-affiliated RAFLCs	Non-listed
7	/	Group G	59	3.2	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
8	/	Group H	54	2.9	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
9	/	Group I	52	2.8	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
10	2	Group J	35	1.9	Third party RAFLCs	Non-listed
11	/	Group K	31	1.7	Bank-affiliated RAFLCs	Non-listed
12	/	Group L	31	1.7	Bank-affiliated RAFLCs	Listed
13	/	Group M	30	1.6	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
14	3	Group N	28	1.5	Third party RAFLCs	Non-listed
15	/	Group O	26	1.4	Bank-affiliated RAFLCs	Non-listed
16	/	Group P	24	1.3	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
17	/	Group Q	19	1.0	Bank-affiliated RAFLCs	Non-listed
18	4	Group R	17	0.9	Third party RAFLCs	Non-listed
<b>19</b>	<b>5</b>	<b>Our Group</b>	<b>13</b>	<b>0.7</b>	<b>Third party RAFLCs</b>	<b>Non-listed</b>
20	/	Group S	13	0.7	Automaker or automobile dealer-affiliated RAFLCs	Non-listed
<b>Total</b>				<b>81.1</b>		

Source: CIC Report

Notes:

- 1: Refers to the ranking among all RAFLCs.
- 2: Refers to the ranking among all third party RAFLCs.



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## INDUSTRY OVERVIEW

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- 3: Company A, founded in 2014, is principally engaged in provision of automobile finance solutions through retail automobile finance lease and operating lease, and its total registered capital is approximately RMB9.6 billion.

Company B, founded in 2013, is engaged in finance lease of automobiles and construction machinery, automobile operating lease, structured financing, etc., and its total registered capital is approximately RMB14.5 billion.

Company C, founded in 1993, is a company principally involved in automobile finance lease business, and its total registered capital is approximately RMB2.7 billion.

Company D, founded in 1984, is involved in finance lease business, and its total registered capital is approximately RMB12.6 billion.

Company E, founded in 2012, is a finance lease company with total registered capital of approximately RMB0.8 billion.

Company F, founded in 2008, is a finance lease company of automobile, aircrafts, ships and other equipment, and its total registered capital is approximately RMB5.1 billion.

Company G, founded in 2004, is involved in finance lease of automobiles and other general machinery, and its total registered capital is approximately RMB1.0 billion.

Company H, founded in 2011, is involved in the sales and finance lease of automobiles, auto parts and other equipment, and its total registered capital is approximately RMB3.6 billion.

Company I, founded in 2013, is affiliated to automotive dealership company and is principally engaged in retail automotive finance lease business, with total registered capital of approximately RMB0.5 billion.

Company J, founded in 2016, is principally engaged in retail automobile finance lease through direct leasing, and its total registered capital is approximately RMB0.01 billion.

Company K, founded in 2007, is involved in finance lease business, and its total registered capital is approximately RMB18.0 billion.

Company L, founded in 1985, is involved in finance lease business for green energy, auto finance, high-end equipment, and its total registered capital is approximately RMB2.9 billion.

Company M, founded in 2009, is primarily engaged in automobile finance lease and automobile operating leasing business, and its total registered capital is approximately RMB1.3 billion.

Company N, founded in 2015, is involved in automobile finance lease and automobile operating leasing business, and its total registered capital is approximately RMB3.2 billion.

## INDUSTRY OVERVIEW

Company O, founded in 2007, is involved in the finance lease of automobiles, public utilities, energy and power, machinery and equipment etc., and its total registered capital is approximately RMB14.0 billion.

Company P, founded in 2012, is involved in automobile finance lease and automobile operating leasing business, and its total registered capital is approximately RMB5.1 billion.

Company Q, founded in 2010, is involved in finance lease and commercial factoring businesses, and its total registered capital is approximately RMB5.9 billion.

Company R, founded in 2010, is principally engaged in retail automobile finance lease business, and its total registered capital is approximately RMB0.6 billion.

Company S, founded in 2015, is principally involved in automobile finance lease business, and its total registered capital is RMB0.2 billion.

4: Refers to the market share among all RAFLCs.

The table below sets out the rankings of the RAFLCs in terms of transaction volume of retail automobile finance lease through direct finance lease in China in 2022:

Rank	Companies	Transaction volume <i>(thousand units, approximate)</i>	Market share <sup>1</sup> <i>(%)</i>	Offline capacity <sup>2</sup> <i>(unit, approximate)</i>	Number of self-operated offline stores <i>(unit, approximate)</i>
1	Group A	50	16.1	36,000	None
2	Group J	35	11.3	70	None
3	Group N	28	9.0	150	75
4	Our Group	13	4.1	68	68
5	Group T <sup>3</sup>	11	3.7	20–100	2
	<b>Total</b>		<b>44.2</b>		

*Source: CIC Report*

*Notes:*

- 1: Refers to the market share among all RAFLCs in terms of transaction volume through direct finance lease.
- 2: Refers to the number of physical stores across China, including both self-operated sales outlets and dealership stores in their cooperative sales network.
- 3: Company T, founded in 2011, is principally engaged in second-hand automobile trading and finance leasing, and its total registered capital is RMB1.9 billion.

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## INDUSTRY OVERVIEW

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### Market Trends of the Retail Automobile Finance Lease Market in China

- ***Direct finance lease is expected to gain more recognition by consumers***

Driven by the increasingly stringent credit qualification requirements for car buyers, direct finance lease is projected to gain more recognition by consumers. Compared with sale-leaseback, direct finance lease is able to provide consumers with diversified products, eliminate residual value risks and simplifies procedures such as insurance and purchase tax. In addition, as the initial vehicle ownership belongs to the leasing companies, direct finance lease will also become an alternative as a result of the government’s car purchase restrictions in certain tier one and tier two cities, for the reason that ready-to-use automobiles with valid license plates are leased to consumers under direct finance lease, which saves time and avoids uncertainty in applying for license plates for the automobiles by themselves.

- ***Tier two, tier three and below cities are expected to become the major business focus***

Compared with the markets in tier one, tier two and tier three and below cities, where there are a large number of consumers who are willing to choose retail automobile finance lease to purchase their first car, are expected to become the main growth drivers. Leading market players in the China’s retail automobile finance lease market do not only expand their reach to end customers by establishing extensive offline sales network, but also offer flexible and customised financing products with competitive pricing.

- ***The omni-channel is expected to become more acceptable***

Due to the development of the mobile internet, the car purchasing process has evolved towards omni-channel including the integrating of online platforms and offline stores. Therefore, it has been gradually common for RAFLCs to build their online sales channels and mobile applications in order to attract consumers to offline stores.

- ***Pricing of automobile finance lease services in all tier of cities is expected to remain competitive***

As some bank-affiliated RAFLCs and automaker or automobile dealer-affiliated RAFLCs may take advantage of broadened funding channels to reduce their financing costs, they may be able to offer more competitive pricing options which is expected to be followed by third-party RAFLCs in order to preserve and increase their market share. Besides, as a majority of third-party RAFLCs operate in tier two, tier three and below tier cities in China with similar products offering and branding, the pricing in tier two, tier three and below tier cities is expected to be more competitive than that in tier one cities in China in subsequent years. Although these developments could lead to potential downward adjustments in the pricing of automobile finance lease services in the near term, such pricing competition pressure could be relieved thanks to greater market acceptance of automobile finance lease services in China.

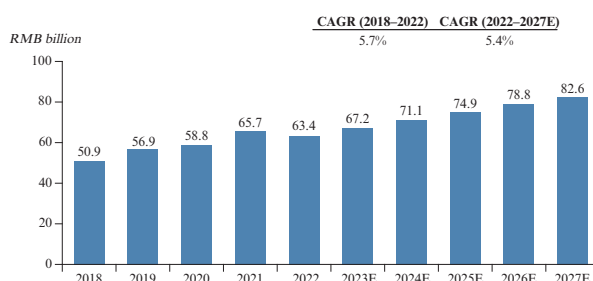
## INDUSTRY OVERVIEW

### OVERVIEW OF AUTOMOBILE OPERATING LEASE MARKET IN CHINA

#### Analysis of Automobile Operating Lease Market in China

The automobile operating lease market in China has expanded at a fast pace over the past years, and the market size in terms of gross merchandise volume has increased from RMB50.9 billion in 2018 to RMB63.4 billion in 2022, with a CAGR of 5.7%. With the development of e-hailing vehicle platforms, the increasing spending on self-drive trips and the favourable policy reforms, the market size of automobile operating lease market in China is projected to increase to RMB82.6 billion in 2027, representing a CAGR of 5.4% from 2022 to 2027.

#### Market size of automobile operating lease market, China, 2018-2027E



Source: China Association of Automobile Manufacturers, CIC Report

Note: The figures of the chart have been rounded up to one decimal place.

#### Market Drivers of the Automobile Operating Lease Market in China

The growth of automobile operating lease market in China is expected to be driven primarily by the following factors:

- **Development of e-hailing vehicle platforms**

Rapid growth of e-hailing vehicle platforms industry will bring vast demand to the automobile operating lease market in China. In 2022, the number of rides with the required Transport Certificate for E-hailing vehicle\* (網絡預約出租汽車運輸證) and the required Driver License of E-hailing\* (網絡預約出租汽車駕駛員證) respectively accounted for less than 70% of the total number of rides served by all e-hailing vehicle platforms in the PRC. Along with increasingly strict regulation enforcement, leading e-hailing vehicle platforms are more inclined to adopt the method of employing drivers separately from driver companies and offer them vehicles that are registered legally with operating lease services providers, and till the end of 2022, local traffic management bureaus have approved a total of 2.1 million Transport Certificates for E-hailing vehicles.

## INDUSTRY OVERVIEW

- **Government car ownership reforms**

The Chinese government has recently implemented a series of policy reforms to limit the number and models of cars that may be purchased by government agencies and encourage government agencies to meet their needs for car use by renting vehicles. These reforms encourage both government bodies and state-owned enterprises to adopt automobile operating lease service.

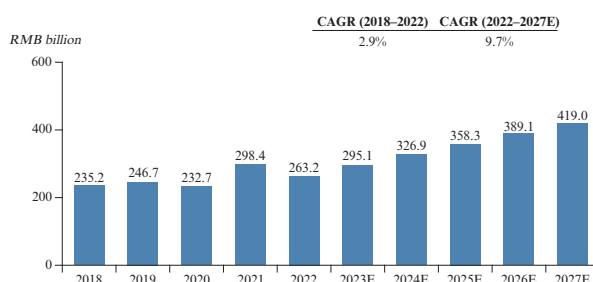
- **Increasing spending on self-drive trips for leisure purposes**

With increasing per capita disposable income, Chinese consumers have been and are expected to engage in an increasing amount of self-drive trips for leisure purposes and provide strong demand for automobile operating lease services in China.

### OVERVIEW OF E-HAILING VEHICLE PLATFORM MARKET IN CHINA

The e-hailing vehicle platform market measured by GMV has increased from RMB235.2 billion in 2018 to RMB263.2 billion in 2022, with a CAGR of 2.9%. This growth is mainly due to the significant market demands for daily travelling and the substantial subsidy from the leading market players. The stringent regulatory environment of the industry has slowed down its development to an extent, but the improving service quality as well as the increasing number of certificated drivers with sufficient vehicles will help to drive up the market growth in the foreseeable future. The e-hailing vehicle platform market measured by GMV is projected to reach RMB419.0 billion by 2027, representing a CAGR of 9.7% from 2022 to 2027. Furthermore, as a dominated e-hailing vehicle platform in China took up majority of total market of e-hailing vehicle platforms in terms of GMV in 2022, while none of the other e-hailing vehicle platforms took up more than 10% of the total market.

#### Market size and forecast of the e-hailing vehicle platform market, in terms of GMV, 2018–2027E



Source: Ministry of Transport of the People’s Republic of China, CIC Report

Note: The figures of this chart have been rounded up to one decimal place.

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## INDUSTRY OVERVIEW

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In accordance with the Provisional Measures for Administration of E-Hailing Services (《網絡預約出租汽車經營服務管理暫行辦法》), the Transport Certificate for E-hailing vehicle\* (網絡預約出租汽車運輸證) shall be obtained for the relevant vehicles such that they will be registered as vehicles for e-hailing passenger transport. In order to obtain such transport certificate, e-hailing vehicle drivers may either re-register private vehicles as commercial vehicles or rent vehicles already with the transport certificate from companies such as our Group. As (i) only private vehicles with low mileage and operating time are allowed to be re-registered as commercial vehicles; and (ii) such re-registration involves much higher insurance cost, renting new vehicles with the Transport Certificate for E-hailing vehicle is becoming a more preferable option than re-registration of private vehicles as commercial vehicles.

Market trends and opportunities of e-hailing market include: (i) stringent legitimacy requirement in terms of vehicles and drivers; (ii) constantly increasing market demand; (iii) specialised e-hailing services offered directly by platforms through platform-owned vehicles; (iv) growing security and service quality concern; and (v) increasing regulation on data collection and use of personal information due to growing data security concern.

### **Impact of the outbreak of COVID-19 on GDP, the retail automobile finance lease and automobile operating lease markets in China**

Due to the outbreak of COVID-19, the year-on-year growth rate of real GDP reached negative 6.8% for the first quarter of 2020. However, with the effective control measures and the full resumption of work, China’s real GDP year-on-year growth rebounded to 2.2% in 2020 and further increased to 8.1% in 2021.

Meanwhile, in 2020, the loan volume of retail automobile finance lease market also decreased to 1,619.8 thousand units with a negative year-on-year growth rate of approximately 7.6%, mainly due to the restrictions of offline outdoor activities and travels, concern for credit crunch by banks and temporarily postponed demand from customers. Furthermore, in 2020, the loan volume of third party retail automobile finance lease market in China reached approximately 760.0 thousand units with a negative year-on-year growth rate of approximately 26.8%. However, in 2020, the automobile operating lease market in China grew to RMB58.8 billion with a year-on-year growth rate of approximately 3.3%.

In 2021, along with the recovery of the automobile sales market, increasing penetration rate of automobile finance, effective implementation of more online marketing strategies, the retail automobile finance lease market in terms of loan volume increased to 1,783.5 thousand units with a year-on-year growth rate of approximately 10.1% and the loan volume of third party retail automobile finance lease market reached approximately 781.3 thousand units. In addition, in 2021, the automobile operating lease market in China grew to RMB65.7 billion with a year-on-year growth rate of approximately 11.8%.

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## INDUSTRY OVERVIEW

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As the pandemic has been gradually brought under control in China, its retail automobile finance lease and automobile operating lease markets are expected to gain growth momentum in the long term along with growing intention of non-car owners to acquire automobiles, increasing awareness of health and safety-related benefits of travelling by private automobiles, and growing penetration rates of retail automobile financial lease and automobile operating lease. In 2022, the loan volume of retail automobile finance lease market has increased to 1.9 million units with a year-on-year growth rate of approximately 3.8% and the loan volume of third party retail automobile finance lease market reached approximately 0.8 million units.