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## INDUSTRY OVERVIEW

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*Certain information and statistics (including quantitative and market trend information) set out in this section have been extracted from various official government publications, market data providers and a report commissioned by us and prepared by our industry consultant, CIC. The information from official government sources has not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of our or their respective directors, officers, employees, advisors or agents or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.*

### SOURCES OF INFORMATION

We commissioned CIC, an independent market research and consulting company and an Independent Third Party, to conduct research and analysis of, and to produce a report on, the pledged vehicle monitoring services market and the automobile dealership operation management services market in China. CIC’s services include industry consultancy services, commercial due diligence and strategic consulting. The CIC Report has been prepared by CIC independent of the influence of our Group and other interested parties. We have agreed to pay a fee of RMB630,000 to CIC in connection with the preparation of the CIC Report. We have extracted certain information from the CIC Report in this section and elsewhere in this document to provide our potential investors with a more comprehensive presentation of the industries where we operate.

During the preparation of the CIC Report, CIC performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the target market in China. Primary research included interviews with key industry experts and leading industry participants from the automobile sales and distribution industry, who are identified by CIC to have professional knowledge and experience relating to China’s pledged vehicle monitoring service market and China’s automobile dealership operation management service market as a result of their current and previous roles in the industry. The views they shared with CIC were based on their work experience and ongoing communications with market participants in the automobile sales and distribution industry. Secondary research involved analyzing data from various publicly available data sources, such as the PRC National Bureau of Statistics and various industry associations. The information and data collected by CIC have been analyzed, assessed and validated using CIC’s in-house analysis models and techniques.

The CIC Report was compiled based on the following assumptions: (i) the overall social, economic and political environment in China is expected to remain stable during the forecast period; (ii) the related key industry drivers are likely to facilitate continued growth in the target market during the forecast period, including the steady increase of per capita disposable income, the constant growth of urbanization rate and the continued implementation of

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favorable policies for China’s passenger automobile market; and (iii) there is no extreme force majeure events or unforeseen industry regulations, which may dramatically or fundamentally affect the market during the forecast period.

Our Directors confirm that after making reasonable inquiries and exercising reasonable care, there is no adverse change in the market information since the date of publication of the CIC Report, which may qualify, contradict or impact the information in this section.

### OVERVIEW OF CHINA’S PASSENGER AUTOMOBILE MARKET

China is the world’s largest passenger automobile market as measured by new passenger automobile sales volume, with 24.0 million new passenger automobiles sold in 2022. However, from the perspective of per capita car parc, there is still room for growth in China compared to developed countries. As of December 31, 2022, China’s per capita car parc was approximately 194 per 1,000 people, significantly lower than that of the U.S. and the European Union, which was 769 and 563 per 1,000 people, respectively. In particular, the per capita car parc is still relatively low in China’s lower-tier cities, which include second-tier and below cities. As of December 31, 2022, the per capita car parc of passenger automobiles in China’s first-tier cities was approximately 217 per 1,000 people, while the number in lower-tier cities was only approximately 193 per 1,000 people. The consumption potential of China’s passenger automobile market, especially the lower-tier cities, is expected to be unleashed due to the increase in residents’ income and purchasing power, relaxed vehicle license plate restrictions and favorable policies for China’s passenger automobile market. For more information, see “—Future Opportunities for Related Markets—Further increase in demand in lower-tier cities.” Furthermore, it is expected that automobile dealerships will have increasing financing needs to cater for the potential growth of China’s passenger automobile market.

According to CIC, certain medium and large cities in China have adopted policies limiting the purchase of new passenger automobiles, which may cause consumers in a particular region to delay or adjust their new passenger automobile purchase plans. However, these policies do not materially affect the overall demand in China’s passenger automobile market because these policies do not apply on a national basis, and thus have less indirect impact on China’s pledged vehicle monitoring service market and automobile dealership operation management service market. In addition, the MIIT and six other administrative agencies jointly promulgated the Announcement on the Issuance of Work Program for Stabilizing Growth in the Automobile Industry (2023-2024) (《關於印發汽車產業穩健成長工作方案(2023-2024年)的通知》) in August 2023, which stipulated that local authorities shall not adopt new measures to limit the purchase of automobiles.

In recent years, in light of the macro development strategies of “carbon peaking” and “carbon neutral,” the sale of NEVs has become a significant trend in China’s passenger automobile market, and the sales volume of NEVs is rising rapidly. China’s NEV sales volume surged from approximately 1.0 million units in 2018 to approximately 6.5 million units in 2022, representing a CAGR of 58.2%, and its share in new passenger automobile sales volume also increased rapidly from approximately 4.3% in 2018 to approximately 27.2% in 2022.

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### OVERVIEW OF CHINA’S AUTOMOBILE SALES AND DISTRIBUTION INDUSTRY

#### Value chain of the automobile sales and distribution industry

Automobile sales and distribution is a crucial step in the automobile industry that bridges automobile manufacturers and automobile end users. Participants in the automobile sales and distribution industry mainly include automobile manufacturers (including ICE vehicle manufacturers and NEV manufacturers), automobile dealerships, general automobile trading stores, financial institutions and third-party service providers. Automobile manufacturers mainly focus on vehicle design, production and manufacturing, and are the upstream suppliers of passenger automobiles. Automobile dealerships and general automobile trading stores primarily engage in the sale of passenger vehicles. They also provide automobile repair and maintenance services, automobile financing services, insurance services and other after-sales services to downstream users. Financial institutions mainly provide financial services to automobile dealerships and automobile end users, such as vehicle inventory financing and vehicle purchase financing. Third-party service providers in the automobile sales and distribution industry mainly provide transaction, software and operation-related services to automobile manufacturers, automobile dealerships, financial institutions and other enterprise users. Some participants in the industry also provide specialized services such as pledged vehicle monitoring services and automobile dealership operation management services.

The increase in the sales volume of NEVs has brought incremental market opportunities for market participants, as well as innovations to their business models. The direct sales model adopted by NEV manufacturers has brought competition and challenges to automobile dealerships. Under the direct sales model, NEV manufacturers directly provide NEV sales and after-sales services through their stores. These stores are usually located in the central business districts of first-tier cities to attract potential customers. While some NEV manufacturers have adopted a direct sales model, automobile dealerships are still the primary channels for the sale of new passenger automobiles, including NEVs, due to mature sales and distribution channels that integrate sales, logistics, warehousing, spare parts, repair and maintenance services. In addition, NEV manufacturers that adopt a direct sales model need to bear the cost of building stores as well as inventory and operating costs. Therefore, NEV manufacturers face the risk of reduced efficiency if they aim to reach lower-tier cities with relatively dispersed demand. As a result, NEV manufacturers may still need to rely on the mature sales and distribution channels of automobile dealerships in their continuous expansion, and automobile dealerships are expected to purchase more NEVs through secured financing, leading to an increase in the demand for pledged vehicle monitoring services.

In addition, automobile dealerships face numerous opportunities and challenges with regard to the sale, repair, maintenance, charging and battery replacement of NEVs. To capture these opportunities and overcome these challenges, automobile dealerships need to adjust their business strategies accordingly. Medium- and small-sized automobile dealerships, especially those with relatively weak operational capabilities, may fail to do so due to lack of market

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insights and professional management teams. The emergence of automobile dealership operation management services can help connect automobile dealerships with NEV manufacturers, and at the same time improve the operational efficiency of automobile dealerships.

### LIMITATIONS OF MARKET PARTICIPANTS

#### Limitations of automobile dealerships and general automobile trading stores

##### *Fragmented market with fierce competition*

As of December 31, 2022, there were over 30,000 automobile dealerships and approximately 120,000 general automobile trading stores in China. The top 100 automobile dealership groups in China in terms of new passenger automobile sales had over 6,600 automobile dealerships, accounting for approximately 22.0% of the total number of automobile dealerships, indicating a market with relatively low concentration rate and a large number of medium- and small-sized enterprise participants who have limited overall strength. In addition, the profit margins of the main business segments of automobile dealerships are under varying degrees of pressure.

##### *High working capital pressure*

Automobile dealerships and general automobile trading stores must pre-purchase new passenger automobile inventory, which requires significant working capital. However, automobile dealerships and general automobile trading stores commonly face problems such as limited access to financing sources and high financing costs. Therefore, once new passenger automobile sales are under pressure, the payback cycle is likely to be extended, affecting the daily operation of all businesses. In order to reduce inventory pressure and effectively manage cash flow, some automobile dealerships and general automobile trading stores chose to increase discounts on new passenger automobiles, reducing their profit margin and leading to a vicious circle.

##### *Lack of professional management team*

Currently, there are a large number of medium- and small-sized enterprises in China's automobile sales and distribution industry. These enterprises generally lack managerial expertise, technological capabilities and sophisticated human resources system. The core management team members face problems such as a lack of energy, sloppy management and unprofessionalism.

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### *Lack of digital capabilities*

In terms of sales and marketing, automobile dealerships and general automobile trading stores lack the ability to continuously manage and market to their customers with digital systems, resulting in unsatisfactory customer conversion and retention. In terms of management, the lack of digital management capabilities makes it difficult for management team to obtain comprehensive, reliable and accurate data and information, which can easily lead to mistakes in decision-making or other problems.

### **Limitations of financial institutions**

#### *High pledged vehicle monitoring workload*

When financial institutions provide secured financing to automobile dealerships and general automobile trading stores, financial institutions have relatively onerous and specialized requirements for pledged vehicle monitoring, requiring regular and irregular stocktaking and continuous monitoring of inventory status. With the rise of business volume, financial institutions need to manage an increasing number of automobile dealerships and general automobile trading stores covering a wide geographical area with limited resources, making it difficult for financial institutions to rely entirely on internal resources to accomplish pledged vehicle monitoring.

#### *Cumbersome offline process with limited data availability and reliability*

In the traditional pledged vehicle monitoring model of automobile financing, pledged vehicle monitoring processes, such as stocktaking, data recording and status auditing, rely heavily on manual operations, which are inefficient and subject to operational risks such as human errors and improper management. Financial institutions have been improving their pledged vehicle monitoring capabilities to meet increasingly refined pledged vehicle monitoring standards and thus putting forward higher requirements for service providers. In addition, since different financial institutions have varying pledged vehicle monitoring systems, a higher demand is placed on external service providers' customization and development capabilities.

#### *Traditional pledged vehicle monitoring leaves room for risks and lacks efficiency*

Under traditional pledged vehicle monitoring mode, the quality of pledged vehicle monitoring depends on the supervisors' ability and the personnel's level of responsibility, leading to operational and moral risks. Meanwhile, due to the lagging and opaque collection of inventory and automobile dealership management information, it is difficult for financial institutions to perceive the status of assets in real-time, which could negatively impact the effectiveness and timeliness of pledged vehicle monitoring.

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### OVERVIEW OF CHINA’S PLEDGED VEHICLE MONITORING SERVICES MARKET

#### **Pledged vehicle monitoring services can help financial institutions improve pledged vehicle monitoring efficiency and break down information barriers**

Inventory-based loans are one of the main financing channels for the automobile sales and distribution industry, and financial institutions are limited by personnel and resource constraints, and face challenges on directly monitoring and managing pledged vehicles. In this model, pledged vehicle monitoring service providers mainly act as third-party supervisors, helping financial institutions monitor automobile dealerships’ inventory and operating conditions through technologies.

Pledged vehicle monitoring services can provide objective and independent monitoring of pledged vehicles for financial institutions, thereby enhancing the quality and authenticity of monitoring while promoting the efficiency of pledged vehicle monitoring for financial institutions to support their business expansions. Service providers’ digital capacity can also help break down the information barrier between automobile dealerships and financial institutions, and thus realize early perception and intervention of potential risks.

According to CIC, as of December 31, 2022, approximately 80% of the financial institutions in China that provided secured financing to automobile dealerships engaged third-party service providers to monitor pledged vehicles. Financial institutions tend to rely on third-party service providers, rather than their in-house personnel, to perform these services, primarily out of cost-efficiency and service quality. Third-party service providers generally have a team of professional service personnel who are equipped with specialized digital monitoring systems, which generally enable them to reduce reliance on manpower and identify and report potential risk events in a more comprehensive and cost-effective manner, as compared to financial institutions’ in-house personnel.

#### **Demand for pledged vehicle monitoring services in China is stable**

Pledged vehicle monitoring service providers in China provide services primarily to (i) financial institutions that provide secured financing to automobile dealerships for their purchase of vehicles; and (ii) automobile dealerships with pledged vehicles. As of December 31, 2022, there were over 200,000 branches of financial institutions in China, and approximately 750 branches of financial institutions were providing secured financing to automobile dealerships, among which approximately 600 branches of such financial institutions, including all of China’s “Big Six” national state-owned commercial banks, 12 joint-stock commercial banks and 25 automobile finance companies, were users of pledged vehicle monitoring services, according to CIC. As of December 31, 2022, there were over 30,000 automobile dealerships in China, and approximately 79.9% of them were users of pledged vehicle monitoring services, according to CIC. In 2022, with the emphasis on pledged vehicle monitoring by financial institutions, standardization of operation and increase in the penetration of secured finance, the total addressable market of pledged vehicle monitoring services for automobile dealerships and general automobile trading stores in China was

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approximately RMB6.1 billion, as calculated by multiplying the number of potential automobile dealership users and general automobile trading store users by the average service fee<sup>(1)</sup> of the industry, assuming that the demand of all potential automobile dealership users and general automobile trading store users is fully addressed. In particular, in 2022, approximately RMB1.9 billion of the total addressable market was attributable to potential automobile dealership users and approximately RMB4.2 billion of the total addressable market was attributable to potential general automobile trading store users.

General automobile trading stores are considered as potential customers for pledged vehicle monitoring services, and therefore are included in the calculation of the total addressable market for the following reasons.

- General automobile trading stores and automobile dealerships share a similar business model, which requires a substantial level of automobile inventory to meet their daily sales demands. General automobile trading stores need financial support in order to maintain a substantial level of automobile inventory, and thus, also have strong demand for secured financing. Similar to automobile dealerships, general automobile trading stores seeking secured financing from financial institutions also need to pledge their automobile inventory. In the past, it was difficult for general automobile trading stores to obtain secured financing from financial institutions directly. Once general automobile trading stores are able to obtain secured financing from financial institutions, they are expected to pay for pledged vehicle monitoring services to monitor their pledged vehicles.
- Financial institutions have started to provide secured financing to general automobile trading stores. In the past, secured financing generally existed among financial institutions, automobile dealerships and automobile manufacturers primarily because financing institutions generally required automobile manufacturers to provide credit support for automobile dealerships in order for automobile dealerships to obtain secured financing. Currently, financial institutions are changing this landscape by launching new secured financing products targeting general automobile trading stores. For example, one national commercial bank in China has launched a new secured financing product targeting general automobile trading stores, which is similar to secured financing products generally provided to automobile dealerships.

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*Note:*

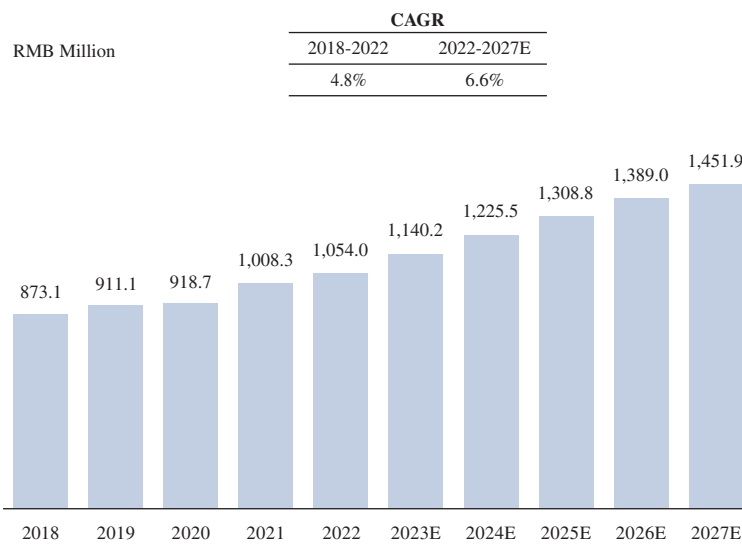
(1) According to CIC, the average service fee of the industry is based on actual service fees charged by service providers in 2022, which range from RMB40,000 to RMB60,000 per year per pledged vehicle monitoring service agreement.

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- Based on research conducted by CIC, in developed markets such as the United States, it is common for financial institutions to provide secured financing to general automobile trading stores. As the market in China develops, it is reasonable to expect that more financial institutions will provide secured financing to general automobile trading stores in the future.

The market size of China’s pledged vehicle monitoring services for automobile dealerships in terms of revenue grew from RMB873.1 million in 2018 to RMB1,054.0 million in 2022, representing a CAGR of approximately 4.8%. As demand for such services increases, the market size is expected to reach RMB1,451.9 million in 2027, primarily based on an estimated increase in penetration rate of such services in line with the development of China’s passenger automobile market.

### Market size of China’s pledged vehicle monitoring services for automobile dealerships, 2018-2027E



Source: CPCA, CADA, NBS, CIC

### The Company is the largest provider of pledged vehicle monitoring services in China’s automobile sales and distribution industry

The pledged vehicle monitoring services market for China’s automobile sales and distribution industry is highly concentrated, mainly due to the fact that leading market participants have already established entry barriers in terms of technological capabilities, established customer relationships and economies of scale. As of December 31, 2022, the top five market participants had a total market share of approximately 90.3% in terms of revenue, while most of the remaining market participants were typically small regional service providers. Leading market participants have nationwide service networks and can meet financial institutions’ demand for the monitoring of pledged vehicles across the country and are, therefore, more likely to gain a higher market share. At the same time, financial institutions



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have stringent requirements for third-party institutions’ professionalism, reliability, timeliness and other service capabilities. The leading service providers have formed stable partnerships with financial institutions, creating high barriers to entry for new market entrants. In addition, leading market participants have accumulated certain technological capabilities. They can enhance the efficiency of monitoring, reduce costs and improve the effectiveness of pledged vehicle monitoring with the help of technologies, which further reduce the marginal cost, so leading companies can enjoy economies of scale and capture greater market share.

In 2022, the Company was the largest pledged vehicle monitoring service provider in China’s automobile sales and distribution industry, with a market share of 47.9% in terms of revenue in 2022. The Company’s market position is primarily attributable to a combination of extensive industry experience, technology capabilities and nationwide service network. As one of the first movers in the market, the Company has established comprehensive and detailed guidelines and know-how on pledged vehicle monitoring based on its industry insights.

In 2022, there were approximately 50 pledged vehicle monitoring service providers in China, among which approximately 10 service providers had established nationwide service networks. The following table sets forth the ranking of major pledged vehicle monitoring service providers in China’s automobile sales and distribution industry in terms of revenue generated from pledged vehicle monitoring services in 2022 and the number of automobile dealership users as of December 31, 2022. While the other four service providers provide other services in addition to pledged vehicle monitoring services, their pledged vehicle monitoring services are comparable to the Company’s, primarily due to the similarity in service scope, pricing model and business model. In addition, while some of the other service providers did not have a comprehensive digital system to facilitate their services, they also use technology to monitor pledged vehicles and compete directly with the Company in the pledged vehicle monitoring services market.

Ranking	Company	Revenue <sup>(5)</sup> in 2022 <i>(RMB in millions)</i>	Market Share in terms of revenue <sup>(5)</sup> in 2022	Number of automobile dealership users as of December 31, 2022
1	<b>Our Company</b>	<b>505.0</b>	<b>47.9%</b>	<b>10,684</b>
2	Company A <sup>(1)</sup>	~265.0	25.2%	~3,600
3	Company B <sup>(2)</sup>	~115.0	10.9%	~2,500
4	Company C <sup>(3)</sup>	~46.0	4.4%	~780
5	Company D <sup>(4)</sup>	~20.0	1.9%	~440

*Source: CIC*

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*Notes:*

- (1) Company A, a private company established in 2013 and headquartered in Tianjin, mainly provides automobile logistics services, pledged vehicle monitoring services and other automobile-related services.
- (2) Company B, a private company established in 2002 and headquartered in Changchun, Jilin Province, mainly provides automobile transportation services, automobile warehousing services, logistics financial services, automobile spare parts transportation services, pledged vehicle monitoring services and other automobile-related services.
- (3) Company C, a private company established in 2008 and headquartered in Beijing, mainly provides automobile warehousing and logistics services, and also provides pledged vehicle monitoring services.
- (4) Company D, a private company established in 2006 and headquartered in Guangzhou, Guangdong Province, mainly provides insurance brokerage services for consumers, and also provides pledged vehicle monitoring services.
- (5) Represents revenue generated from pledged vehicle monitoring services.

### **Entry barriers for China’s pledged vehicle monitoring services**

- ***Technological capabilities.*** Developing and maintaining pledged vehicle monitoring services require market participants to enhance their technology, infrastructure and data security. New entrants need to have sufficient access to funding to cover the costs of developing relevant technologies and infrastructure and recruiting qualified employees to develop and maintain these technologies.
- ***Established customer relationships.*** China’s pledged vehicle monitoring services industry is characterized by long-term customer relationships with financial institutions and automobile dealerships. New entrants need to attract customers from other service providers and obtain trust from these customers by providing high-quality services with competitive pricing.
- ***Economies of scale.*** Existing market participants have achieved large economies of scale by serving a wide range of clients across different regions. They have also invested heavily in developing and maintaining their digital systems, data analytics tools, cybersecurity, customer service capabilities and human resources. These factors enable them to offer high-quality services with competitive pricing compared with new entrants, who would need to incur high fixed and variable costs to establish their presence in the market.

### **Risks and challenges to China’s pledged vehicle monitoring services market**

China’s pledged vehicle monitoring services market faces certain risks and challenges. The slowdown of China’s economic growth may result in a decrease in residents’ income and their ability to purchase new passenger automobiles, which may reduce the demand for new passenger automobiles and the demand for such services. In addition, favorable PRC regulations and policies for pledged vehicle monitoring services, as well as the business models of financial institutions, may change, thus affecting the demand for such services.

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Furthermore, changes in the automobile sales and distribution industry, such as changes in the demand of new passenger automobiles, could also affect the demand for such services. If there is an increase in the demand for new passenger automobiles, automobile dealerships are expected to purchase more passenger automobiles through secured financing, leading to an increase in the demand for pledged vehicle monitoring services. Similarly, if there is a decrease in the demand for new passenger automobiles, the demand for pledged vehicle monitoring services is expected to decrease.

Service providers also face risks and challenges from (i) changes in China’s general economy and automobile sales and distribution industry; (ii) fluctuations in labor and subcontracting costs; and (iii) intensified competition in the pledged vehicle monitoring service market. See “Risk Factors—Risks Relating to Our Business and Industry” for details.

### OVERVIEW OF CHINA’S AUTOMOBILE DEALERSHIP OPERATION MANAGEMENT SERVICES MARKET

#### **Automobile dealership operation management service providers can help automobile dealerships reduce costs, increase efficiency and improve competitiveness**

Automobile dealership operation management services are designed to help automobile dealerships reduce costs and increase efficiency by introducing professional management teams and concepts, comprehensive management and accounting systems and intelligent marketing and customer management tools. In particular, professional management teams can help automobile dealerships optimize their staff resources through comprehensive management systems by gathering staff utilization data and allocating staff resources effectively, thereby reducing labor costs. In addition, accounting systems can help automobile dealerships improve their financial management efficiency by reducing in-person and offline procedures, and at the same time help automobile dealerships gather financial data more efficiently. Furthermore, intelligent marketing tools can provide accurate delivery of marketing information, evaluate the effectiveness of advertisement and improve the content management of advertising, which will improve the overall efficiency of marketing efforts of automobile dealerships. At the same time, customer relationship management tools can accumulate sales information and customer communication records, which can help strengthen contact between sales staff from automobile dealerships and potential customer groups, and thus increase the efficiency of automobile dealerships.

#### **China’s automobile dealership operation management services market has not yet formed a stable competitive landscape**

While certain market participants have already been exploring viable business models for automobile dealership operation management services in light of the increase in market size for such services from RMB13.2 million in 2021 to RMB47.6 million in 2022, China’s automobile dealership operation management services market has not yet formed a stable competitive landscape. Market participants typically enter into individual service agreements with automobile dealerships. According to CIC, as of December 31, 2022, the penetration rate of

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automobile dealership operation management services in China was less than 0.5%, as calculated by dividing the number of automobile dealerships served by the total number of automobile dealerships in China. In addition, there are currently only approximately 10 market participants expanding into this area, including third-party service providers in the automobile sales and distribution industry, startup software companies, internet platform companies and large automobile dealerships with strong management capabilities, and most of these market participants are still at the stage of analyzing customer demand and service scope, and have not been able to actually provide such services or generate substantial revenue from such services. The competitive landscape could undergo significant changes depending on the willingness of automobile dealerships to obtain such services, the promotion efforts by service providers and the development of successful management cases.

**The demand for automobile dealership operation management services in China is expected to increase in the future as competition among automobile dealerships in the automobile sales and distribution industry intensifies**

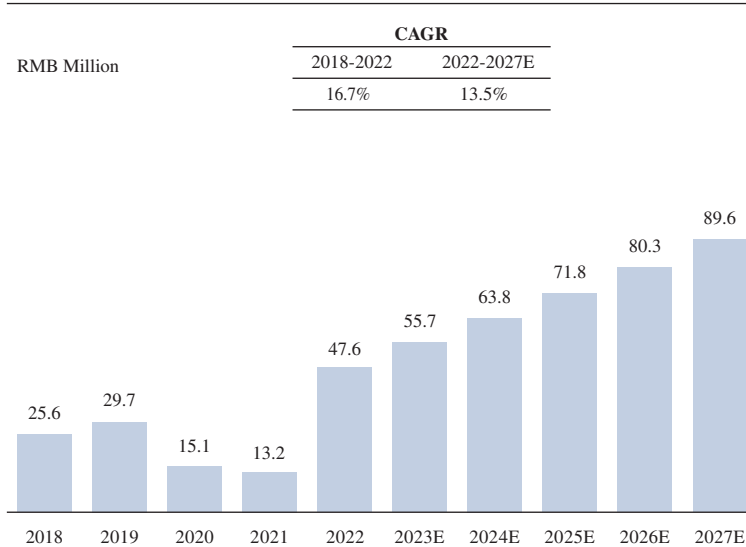
The future growth of China’s automobile dealership operation management services market depends on the potential demand from automobile dealerships, recovery from the COVID-19 pandemic and development of successful management cases. In 2022, there were approximately 30,000 automobile dealerships in China and approximately 70% of these automobile dealerships were unable to make a profit, according to CADA. According to CIC, automobile dealerships that were unable to make a profit will have demand for professional management services that could help them reduce costs and improve operation efficiency, such as automobile dealership operation management services. In addition, the automobile sales and distribution industry has been negatively affected by the COVID-19 pandemic over the past three years, which delayed market participants’ efforts to expand their businesses and provide such services. According to CIC, the market is expected to grow in the future as more market participants start to provide such services after the recovery from the COVID-19 pandemic, and with the help of service providers, non-profitable automobile dealerships may increase their paces to improve their operation efficiency so as to become profitable. These market participants are actively expanding their business and implementing promotional policies such as offering discounts on fixed management fees, accommodating flexible payment cycles, providing free software and other services, and demonstrating their advantages in helping automobile dealerships achieve their performance targets. In addition, the development successful management cases by service providers can help potential automobile dealerships understand the value of such services, which will aid the promotion of such services.

The market size of China’s automobile dealership operation management services in terms of revenue grew from RMB25.6 million in 2018 to RMB29.7 million in 2019. However, the market size declined from RMB29.7 million in 2019 to RMB13.2 million in 2021, primarily because startup companies that provide such services experienced difficulties in their operations in 2020 when the market was negatively impacted by the COVID-19 pandemic. As market conditions improved, the market size increased from RMB13.2 million in 2021 to RMB47.6 million in 2022. The Company started to provide such services in 2022, with a market share of approximately 90% in 2022. Revenue generated by the Company from such

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services was RMB42.8 million in 2022. Based on the reasons for the expected growth set out above, the market size is expected to reach RMB89.6 million in 2027, according to CIC. According to CIC, the Company’s market share in 2027 is expected to be lower than that in 2022, primarily due to the entry of other market participants. These market participants are expected to capture a portion of the market share while contributing to the growth of the overall market size.

### Market size of China’s automobile dealership operation management services, 2018-2027E



Source: CPCA, CADA, NBS, CIC

### Entry barriers for China’s automobile dealership operation management services

- **Industry expertise.** Automobile dealership operation management services require service providers to have a deep understanding of the limitations of automobile dealerships and scrutinize the daily operations and management of automobile dealerships to offer customized services. Therefore, startup software companies and internet platform companies that do not have a deep understanding of the limitations of automobile dealerships may not be successful in this industry.
- **Technological capabilities.** The technological capabilities of the automobile dealership operation management service providers are also improving. With the digitalization of automobile dealerships, automobile dealership operation management service providers are expected to develop and utilize technologies to develop automobile dealership operation management systems, optimize their services and improve efficiency and effectiveness.
- **Access to industry resources.** Automobile dealership operation management service providers rely on effective distribution channels and other industry resources to help automobile dealerships manage orders from their customers, deliver vehicles to their

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customers and provide high-quality after-sales services with enhanced efficiency. New entrants may have limited access to these distribution channels and resources, which may negatively affect their ability to offer high-quality services with competitive pricing to customers.

### **Risks and challenges to China’s automobile dealership operation management services market**

China’s automobile dealership operation management services market faces certain risks and challenges. Service providers face risks and challenges from changes in China’s general economy and automobile sales and distribution industry, which could negatively affect service providers’ promotional efforts relating to such services. In addition, if more consumers purchase automobiles from internet platforms or other means and no longer rely on automobile dealerships, the automobile dealership operation management services market could be negatively affected. Furthermore, service providers may be unable to develop successful management cases or meet the expectations of automobile dealerships, which may cause them to lose automobile dealership users. Moreover, service providers may also be unable to retain key employees.

### **FUTURE OPPORTUNITIES FOR CHINA’S PLEDGED VEHICLE MONITORING SERVICE MARKET AND AUTOMOBILE DEALERSHIP OPERATION MANAGEMENT SERVICE MARKET**

#### **Further increase in demand in lower-tier cities**

Driven by favorable policies, increased purchasing power of residents and development of road, fuel and electric-charging infrastructures, which will increase the convenience of driving automobiles, the demand for new passenger automobiles in lower-tier cities is expected to increase and will become one of the key drivers of market growth. Favorable policies include (i) the Opinion on Further Unleashing Consumption Potential and Promoting Sustained Recovery of Consumption (《關於進一步釋放消費潛力促進消費持續恢復的意見》) issued by the General Office of the State Council in April 2022, aimed at promoting the consumption of automobiles in China; (ii) the Announcement on the Reduction of Purchase Tax for Certain Passenger Automobiles (《關於減徵部分乘用車車輛購置稅的公告》) jointly issued by the MOF and the STA in May 2022, aimed at stimulating the sale of passenger automobiles in China; and (iii) the Notice on Measures to Invigorate Automobile Sales and Distribution and Promote Automobile Consumption (《關於搞活汽車流通擴大汽車消費若干措施的通知》) jointly promulgated by the MOFCOM and 16 other administrative agencies in July 2022, aimed at stimulating the sale of passenger automobiles and NEVs and encouraging financial institutions to provide automobile secured financing in China.

According to CIC, these favorable policies are expected to continue to promote the sale of passenger automobiles, and automobile dealerships are expected to purchase more passenger automobiles through secured financing, leading to an increase in the demand for pledged vehicle monitoring services. At the same time, in light of the expected increase in passenger

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automobile sales, automobile dealerships are expected to optimize their business operations through professional management teams. As a result, the demand for automobile dealership operation management services is expected to further increase.

### **Further increase in business volume and target customers of financial institutions**

Financial institutions, which primarily include commercial banks and automobile finance companies, provide secured financing to automobile dealerships. Driven by favorable policies for China’s passenger automobile market, financial institutions have launched new online secured financing products typically with higher credit limit and simplified application procedure attempting to cover automobile dealerships, general automobile trading stores and used car dealers. For example, one national commercial bank in China has launched a new secured financing product targeting general automobile trading stores, which is similar to secured financing products generally provided to automobile dealerships. The amount of secured financing provided by automobile finance companies has doubled in the past decade. With the increase of secured financing provided to automobile dealerships and general automobile trading stores, the business volume of pledged vehicle monitoring services is expected to rise, driving the growth of the pledged vehicle monitoring services market.

### **Further increase in demand for secured financing of automobile dealerships and general automobile trading stores**

With the further development of China’s passenger automobile market, automobile dealerships and general automobile trading stores are expected to increase their inventory level to expand their geographic coverage and diversify their vehicle brands and models. Therefore, the demand for secured financing of automobile dealerships and general automobile trading stores is expected to further increase, which could generate more demand for pledged vehicle monitoring services and related services.

### **Fiercer competition in the automobile sales and distribution industry**

The target customers of automobile dealership operation management services are medium- and small-sized automobile dealerships, which include automobile dealerships that have 5 to 20 automobile dealership stores, and the number of these customers is growing steadily. These customers generally have a certain scale of business and thus have greater potential for business growth. However, they face problems such as lack of professional management teams due to the retirement of their original management personnel, as well as inefficiencies due to lack of technological capabilities. In this market adjustment period, automobile dealerships who rely on such services will have a better chance to expand their market share and consolidate their dominant position to stand out in the competition.

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## INDUSTRY OVERVIEW

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### FUTURE DEVELOPMENT FOR CHINA’S PLEDGED VEHICLE MONITORING SERVICE MARKET AND AUTOMOBILE DEALERSHIP OPERATION MANAGEMENT SERVICE MARKET

#### Development of technology

With the development of technologies, data relating to automobile dealerships’ inventory can be dynamically transmitted back to the system and connected directly with financial institutions’ pledged vehicle monitoring systems and thus significantly improving regulatory efficiency, accuracy and timeliness. Such development of technology could enable service providers to monitor pledged vehicles more efficiently, and thus reduce the marginal cost of pledged vehicle monitoring services.

#### Development of third-party service providers

Automobile dealerships face issues that need to be handled by professionals, such as inventory management, capital management, channel optimization and team building. The requirements for refinement and specialization of management have increased significantly. With rich experience in the automobile dealership industry, mature management systems and strong industry resources, automobile dealership operation management service providers can provide integrated professional services, including capital, sales, human resources, finance and brand building services.

#### Development of diversified services

According to CIC, new passenger automobile sales volume in China increase from 2013 to 2017, representing a CAGR of approximately 8.5%. However, new passenger automobile sales volume in China decreased from 2018 to 2022, representing a negative CAGR of approximately 0.4%, which was due to the decrease in the demand for new passenger automobiles as a result of the COVID-19 pandemic. In addition, the average age of passenger automobiles increased from 4.9 years in 2019 to 6.2 years in 2022. With the slowdown in new passenger automobile sales and the increase in average vehicle age in China’s passenger automobile market, the business focus of automobile dealerships is gradually shifting. The service scope of suppliers is expected to change accordingly, with some suppliers establishing new service models focusing on NEV trading, as well as other automobile services. These market trends will provide market participants with more opportunities to address market demand.



## INDUSTRY OVERVIEW

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### KEY SUCCESS FACTORS

#### **Industry know-how**

The digital transformation of the automobile sales and distribution industry is rooted in its traditional business model, supplemented by sufficient data and information technology to ultimately achieve the upgrade of service quality and management efficiency. Therefore, it is vital to understand the automobile dealership industry and the accumulation of operational capabilities.

#### **Customer and branding capabilities**

Through the accumulation of customer resources and experience, service providers can build up their industry reputation and their own brands, which will help expand the scope of their services and procure new customers and thus increasing revenue and further enhancing their market shares.

#### **Integrated service capabilities**

The automobile sales and distribution industry involves many businesses and participants, including various vehicle brands, automobile logistics companies, financial institutions, after-sales service workshops and automobile parts suppliers. Therefore, companies with rich and comprehensive ecological resources and service capabilities can better grasp automobile dealerships' needs and accumulate competitive advantages.