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OVERVIEW

Who We Are

We provide pledged vehicle monitoring services and automobile dealership operation management services in China. According to CIC, we were the largest pledged vehicle monitoring service provider in China’s automobile sales and distribution industry both in terms of revenue in 2022, with a market share of 47.9%, and in terms of the number of automobile dealership users as of December 31, 2022. We achieved such dominant position in the pledged vehicle monitoring service market and outcompeted our peers primarily through (i) our 17 years of operation history and proven track record; (ii) nationwide presence; (iii) VFS system that collects, processes and analyzes data from pledged vehicles; and (iv) R&D capabilities that allow us to continuously improve and iterate our VFS system to meet evolving market demands.

We offer pledged vehicle monitoring 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 June 30, 2023, we provided pledged vehicle monitoring services to (i) approximately 200 branches of 18 commercial banks, including all of China’s “Big Six” national state-owned commercial banks and 12 joint-stock commercial banks; (ii) 27 automobile finance companies; and (iii) 11,152 automobile dealerships.

Through our provision of pledged vehicle monitoring services over the years, we have accumulated insights regarding China’s automobile sales and distribution industry. As a natural extension, we endeavored to expand our business in China’s automobile sales and distribution industry and began offering operation management services to automobile dealerships that seek more optimal business and financial performance in April 2022. In order to optimize our services before expanding our offering to the wider market and in light of our strategic business relationship with Changjiu Group, we have initially focused on providing operation management services to automobile dealerships owned by Changjiu Group. Through this arrangement with Changjiu Group, we are able to get feedbacks and enhance our service quality. Given that we commenced this business line relatively recently and additional time is required for us to promote our operation management services to broader industry participants, automobile dealerships owned by Changjiu Group have accounted for substantially all of our customers for this business line. As of June 30, 2023, we managed a total of 75 automobile dealerships, among which 74 were owned by Changjiu Group and one was owned by an Independent Third Party.

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Our Technologies

Our service capabilities are supported by our digital information infrastructure. We use cloud-based technologies to establish a cloud infrastructure for our digital information infrastructure, on top of which we built systems for data management, data analysis and business operations based on our industry expertise and customer insights. We have also applied our VFS system and Vehicle Connect mobile application, RFID labels, PDAs, OBD devices and lockboxes as well as data analytics to optimize our pledged vehicle monitoring services. To better support our provision of automobile dealership operation management services, we have adopted an automobile dealership operation management system, namely Smart Star (“智科星”), that is tailored for managing the daily operations of automobile dealerships.

Our Value Propositions

We believe our success is based on the value that we provide to our users:

- **Financial institutions.** We provide efficient pledged vehicle monitoring services to financial institutions and enable them to better safeguard the vehicles pledged to them.
- **Automobile dealerships.** By facilitating more effective and cost-efficient monitoring of pledged vehicles and reducing counterparty risks for financial institutions, our pledged vehicle monitoring services may enhance chances for automobile dealerships to obtain loans from financial institutions. Through our automobile dealership operation management services, we recommend and select experienced staff to automobile dealerships and provide know-how and technology that aim to enhance their business and financial performance.

Our Performance

We achieved stable growth during the Track Record Period. In 2020, 2021 and 2022, our revenue amounted to RMB430.6 million, RMB477.7 million and RMB547.9 million, respectively, representing a CAGR of 12.8%. Our revenue also increased from RMB258.7 million in the six months ended June 30, 2022 to RMB309.4 million in the six months ended June 30, 2023. The number of automobile dealerships that were using our pledged vehicle monitoring services increased from 8,316 as of December 31, 2020 to 9,205 as of December 31, 2021, then to 10,684 as of December 31, 2022, and further to 11,152 as of June 30, 2023.

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COMPETITIVE STRENGTHS

Largest automobile pledged vehicle monitoring service provider in China

According to CIC, we were the largest pledged vehicle monitoring service provider in China’s automobile sales and distribution industry in terms of revenue in 2022, with a market share of 47.9%, and in terms of the number of automobile dealership users as of December 31, 2022. We believe such achievement is principally due to our continuous focus on our dedication to the development of technology, which is crucial to our pledged vehicle monitoring services. For more information on key milestones of our development of technology, see “History, Reorganization and Corporate Structure—Key Milestones.” Through our commitment to the advancement of technology, together with our accumulated industry insights on the automobile sales and distribution industry in China, we have established customers’ confidence in our services, which enables us to become the largest player in the pledged vehicle monitoring service market in China. In addition, we provide digitalized, internet-based and automated pledged vehicle monitoring services in China’s automobile sales and distribution industry, according to CIC.

We believe we have the following comparative advantages that have contributed to our success in the area of pledged vehicle monitoring services:

- **Extensive industry experience.** According to CIC, we were one of the first movers to provide pledged vehicle monitoring services in China’s automobile sales and distribution industry. Over the years since our beginning, we have accumulated industry insights. We have established comprehensive and detailed guidelines and know-how on pledged vehicle monitoring based on our industry insights.
- **R&D capabilities.** We have been constantly optimizing our services with technologies to cater to user needs and enhance operational efficiency.
 - o At the early stage of our pledged vehicle monitoring services, when we were part of Changjiu Industrial, we introduced our pledged vehicle monitoring services. Although we used manual inspection to deliver most of the solutions at the time, it was the beginning of our commitment of using digital services to transform pledged vehicle monitoring in China’s automobile sales and distribution industry.
 - o We were among the first in China in offering pledged vehicle monitoring services, according to CIC. Technology now delivers most of the services and our inspectors only play a supporting role. These technologies are still widely applied to our pledged vehicle monitoring services today. The three key components are:
 - Our VFS system stores and analyzes pledged vehicles’ data that we collect from automobile dealerships via our radio-frequency identification (“RFID”) labels, PDAs and on-board diagnostics (“OBD”)

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devices. The financial institutions to which we provide pledged vehicle monitoring services have access to such data via our VFS system or Vehicle Connect; automobile dealerships could also access such data via Vehicle Connect. The digitalized and internet-based VFS system could produce automated early warnings and facilitate decision-making on potential risks for financial institutions with an accurate transmission and approval process.

- Our hardware primarily consisted of radio-frequency identification RFID labels and OBD devices, could locate and monitor the pledged vehicles more accurately and avoid manual errors.
- We use the data collected to better analyze and report the potential risk events of automobile dealerships.

We will continue to upgrade our services to cover more service scenarios in our pledged vehicle monitoring services based on evolving market demand and enrich our pledged vehicle monitoring services with more advanced technologies and monitoring models.

- **Proven track record.** Our competence in pledged vehicle monitoring is manifested by a relatively lower incidence rate of risk events. Risk events refer to unforeseeable and abrupt events, including but limited to unauthorized transfer of pledged vehicles, default in loan payment, repeated pledges and other events that would endanger the interest of financial institutions. In 2020, 2021, 2022 and the six months ended June 30, 2023, we identified and reported to financial institutions 35, 28, 27 and 14 risk events that occurred in automobile dealerships, respectively. As a result, the incidence rate of risk events in the automobile dealerships supported by our pledged vehicle monitoring services declined to 0.44%, 0.32%, 0.27% and 0.13% in the same periods, respectively. The incidence rate of risk events is calculated as the sum of automobile dealerships that experience actual at-risk transactions divided by the total number of automobile dealerships during a specified period of time.

Early mover in automobile dealership operation management services

Automobile dealerships in China continued to evolve in recent years. According to CIC, the current market size of automobile dealership operation management services in China is relatively small as the market is still in its infancy with limited service providers; and traditional dealerships, which do not adopt refined management, embrace digital systems and establish comprehensive talent training programs, are likely to have inefficient business operations and lower profitability. Automobile dealerships face increasingly intense competition and have strong demand for refined management and higher profitability, resulting in an unmet need for professional operation management services. It is expected that the potential business opportunities on this aspect become more prominent in the short coming future.

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We are well positioned to meet such demand. We have a proven track record of 17 years in China’s automobile sales and distribution industry. With industry expertise and customer insights accumulated over the years since our beginning, we are able to keep abreast of the latest trends of the industry and have a better understanding of the various limitations and needs of participants in the industry. Our industry experience, technology capabilities and extensive user base, coupled with a dedicated management team, have laid a solid foundation for us to expand our business into digital automobile dealership operation management services.

In April 2022, we became an early mover in China’s automobile sales and distribution industry to offer operation management services to automobile dealership owners. Our automobile dealership operation management services analyze the operation results and offer advices to automobile dealerships, in order to improve their operational efficiency and reduce management costs through technology. We provide automobile dealerships with systematic, standardized and workflow-driven management services that help them with customer-facing activities, including marketing, sales, after-sales repair and customer relationships, and back-office operations, including human resource, financial, tax and inventory management. Our digital information infrastructure that is embedded in our management services can generate visualized operation results and offer automobile dealerships comprehensive services based on automated results analysis.

For the year ended December 31, 2022, automobile dealerships using our automobile dealership operation management services had an average gross profit margin of 7.2%, which was higher than the average performance of automobile dealerships with similar scale, brand position and geographical layout, according to CIC. As of June 30, 2023, we managed a total of 75 automobile dealerships, among which one was owned by an Independent Third Party. As of the Latest Practicable Date, we had entered into non-legally binding letters of intent with 144 automobile dealerships, all of which are owned by Independent Third Parties.

Broad and quality user base

As of June 30, 2023, we provided pledged vehicle monitoring services to (i) approximately 200 branches of 18 commercial banks, including all of China’s “Big Six” national state-owned commercial banks and 12 joint-stock commercial banks; (ii) 27 automobile finance companies; and (iii) 11,152 automobile dealerships. As of the same date, 92 automobile dealership group companies among the top 100 automobile dealership group companies in China were using our pledged vehicle monitoring services. In addition, as of June 30, 2023, we provided access to our mobile application Vehicle Connect, on a complimentary basis, to approximately 50,000 general automobile trading stores in China to keep track of the pledged vehicles and thus expand our service coverage to the downstream of the industry.

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We have established a nationwide service network to support our high-quality and responsive user services. Leveraging our extensive service network, we are able to engage with our users closely, stay close to the business changes and operation results of our users and continue to optimize our services to enhance user satisfaction.

Leveraging our broad user base together with our market reputation, we are building an ecosystem around our digital information infrastructure that connects participants in the automobile sales and distribution industry, including automobile dealerships, general automobile trading stores, financial institutions and automobile manufacturers, and continuously generate value with participants in the industry. Through our efficient pledged vehicle monitoring services, we enable financial institutions to better safeguard and monitor vehicles pledged to them. Our pledged vehicle monitoring services also may enhance chances for automobile dealerships to obtain loans from financial institutions. Through our automobile dealership operation management services, we recommend and select experienced staff to automobile dealerships and provide know-how and technology that aim to enhance their business and financial performance. As our ecosystem attracts more participants and continues to expand, it generates self-reinforcing network effects, which leads to greater user engagement on our digital information infrastructure and increasing demand for our services.

Technologies and R&D capabilities

Our digital information infrastructure offers systematic and digital support for our business operation. Our digital information infrastructure is critical to providing our pledged vehicle monitoring services, ensuring operational efficiency and helping users manage risks and reduce costs. Our pledged vehicle monitoring system is composed of (i) the VFS system and Vehicle Connect, which is a mobile application that provides access to the information collected by the VFS system; (ii) RFID labels; (iii) PDAs; (iv) OBD devices; and (v) the traditional and electronic lockboxes. We continuously monitor and analyze pledged vehicles’ data on our digital information infrastructure for the purpose of enriching and optimizing our services. The wide spectrum of data accumulated through our information infrastructure together with our data analysis capabilities provide strong support for our business expansion and prospects.

The scalable nature of our information infrastructure enables us to provide tailor-made automobile dealership operation management services to our customers by deploying different combinations of predesigned business intelligence analysis modules that meet customers’ requirements. As of June 30, 2023, our digital information infrastructure could offer various types of business intelligence analysis module combinations and support more than 80 application modules to further support our automobile dealership operation management services. Based on our digital information infrastructure, we have adopted an automobile dealership operation management system, namely Smart Star (“智科星”), that is tailored for managing the daily operations of automobile dealerships.

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We strengthen our core technology R&D capabilities by making persistent R&D efforts and enhance underlying infrastructure and technology for our digital information infrastructure. We procure cloud services from robust industry service providers and use their cloud-based technologies to establish a cloud infrastructure for our digital information infrastructure. On top of the cloud infrastructure, we have built three digital “supporting systems,” including (i) a data supporting system, which specializes in data collection and data mining; (ii) a technology supporting system, which specializes in managing and invoking underlying technologies; and (iii) a business supporting system, which helps mobilize the resources in the data supporting system and technology supporting system in order to quickly respond to users’ needs and tailor our services to their actual requirements. Furthermore, we deploy a “DevOps” development model, an automated and efficient development, testing and maintenance tool, into our supporting systems to increase our R&D efficiency by reducing the reliance on manpower.

Our R&D capabilities are supported by our continuous initiatives in our R&D activities. As of the Latest Practicable Date, we had 21 registered copyrights and 11 registered patents in China.

Experienced management team

Our founder, Mr. Bo has over 30 years of experience in the automotive and logistics industry and has profound and unique insights on reshaping the management of automobile dealerships in China. Mr. Bo has additional practical experience in international trade, automobile investment and automobile sales. He was appointed as the vice president of China Federation of Logistics & Purchasing (中國物流與採購聯合會) in the PRC and the president of China Automotive Logistics Association of CFLP (中國物流與採購聯合會汽車物流分會) in September 2011 and November 2010, respectively. Mr. Bo is responsible for the Group’s overall operational management.

We have a passionate, stable and experienced senior management team. Our senior management team has an average of over 15 years of professional experience cross industries including but not limited to automobile sales and distribution industry and information technology industry. Their wealth of industry knowledge and extensive professional experience in their respective fields are essential to our long-term success. Their experience in corporate management and corporate strategic planning have proven to be valuable by allowing us to seize market opportunities and optimize strategic planning in response to the changing market.

We have a sizable team of experienced mid-level management personnel with a good sense of teamwork spirits. Most of them have rich practical experience in the industry and are able to maintain good customer relationships and retain new ones. Our experienced and motivated mid-level management personnel is important for our business expansion as well as strategy implementation.

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OUR STRATEGIES

Enrich service offering and improve technology capabilities

We believe product innovation and technology capabilities are key to our success. We intend to continuously explore the limitations and needs of industry participants and continually enrich and upgrade our service offering to cater to their evolving needs and preferences.

We also plan to continue to invest in technology, particularly in underlying technologies and infrastructure related to our user-end systems. We will continue to develop and refine our integrated digital information infrastructure to make it more accessible and scalable with more service features and data analytics functions to meet user demand and enhance user experience. Furthermore, we will continue to enhance our data processing capabilities and enrich our integrated digital information infrastructure to cover a variety of service scenarios and optimize our digital information infrastructure through designing lightweight algorithms in the underlying cloud infrastructure and developing scalable modules in the data, technology and business supporting systems. We expect the continuous improvement of technology capabilities will enable us to quickly respond to customer needs, increase operational efficiency in a variety of service scenarios, and adapt to the evolving market.

We intend to use approximately [[REDACTED]]% of the [REDACTED] to improve our pledged vehicle monitoring services by upgrading devices and enriching the features of our software products, and approximately [[REDACTED]]% of the [REDACTED] to develop an integrated supporting system for the automobile sales and distribution industry. For further details, please see “Future Plans and Use of [REDACTED].”

Grow and diversify user base and expand ecosystem

We are building a vibrant ecosystem around our digital information infrastructure that connects participants in the automobile sales and distribution industry, including automobile dealerships, general automobile trading stores, financial institutions and automobile manufacturers, and continuously generate value with participants in the industry. We plan to expand the ecosystem to involve more participants to grow and diversify our user base and provide long-term value to our customers.

We plan to further expand our automobile dealership operation management capacity by increasing our service capabilities and improving service quality. Through automobile dealership operation management services, we will continue to formulate strategies for medium- and small-sized automobile dealership companies and use information technologies to improve their performance. We plan to enhance our brand awareness by advertising successful cases, which in turn will expose us to more business opportunities from industry-leading automobile leadership companies.

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We also expect that our proposed launch of the automobile supply chain service application will bring NEV manufacturers and more used car dealers to our ecosystem, thereby further enlarge and diversify our user base. Furthermore, we plan to allow selected third-party service providers to have access to our digital information infrastructure with an aim to make our system an integrated ecosystem that connects masses of participants in the automobile sales and distribution industry. Automobile dealerships can directly use third-party services such as insurance services, financing services, supplies of spare parts, logistics services and marketing services on the system we offer.

We intend to enhance our close relationship with existing customers and business partners and obtain new customers by interactions among participants in the ecosystem, ultimately benefiting from a self-reinforcing effect in our ecosystem.

We intend to use approximately [[REDACTED]]% of the [REDACTED] to expand our automobile dealership operation management capacity and approximately [[REDACTED]]% of the [REDACTED] to expand our sales and marketing capacities. For further details, please see “Future Plans and Use of [REDACTED].”

Capitalize on growth trends in NEV market in China’s lower-tier cities

China is the world’s largest passenger automobile market in terms of total car parc, with great untapped potential especially in lower-tier cities. The consumption potential of China’s passenger automobile market, especially the potential of lower-tier cities, is expected to be unleashed due to the increase in residents’ income and purchasing power, and favorable policies regarding the sale of automobiles in rural areas. In particular, the growth rate of the sales volume of NEVs in China’s lower-tier cities is expected to surpass that of gasoline-powered automobiles in the next five years, according to CIC.

Against the backdrop of increasing demand, the sales model of NEVs market in China has been undergoing dramatic changes. The increasing market demand for NEVs in China has led to a corresponding rise in the demand for NEVs’ sales network, delivery capacity and after-sales services. Typically, most of the NEV manufacturers do not have extensive sales channels in lower-tier cities.

To capture these industry trends, we have formulated our “bring automobiles to rural areas (汽車下鄉)” strategy and plan to enable NEV manufacturers to expand their business reach with our supply chain service capability in lower-tier cities. In particular, we will connect NEV manufacturers with automobile dealerships through our existing nationwide service network. We plan to provide automobile supply chain services to NEV manufacturers to further enhance user engagement, which primarily include license plate registration services and predelivery preparation services. Further, we intend to provide supply chain services to the up- and downstream business partners of NEV manufacturers, such as the suppliers of lithium, electrolytes, separators and other raw material, manufacturers of battery, motor and other vehicle parts, and service providers specializing in NEV charging equipment, battery recycling, vehicle financing, vehicle rental, used car trading as well as repair and maintenance services, which are complementary to our existing services.

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Most of the NEV manufacturers do not have extensive sales channels in China’s lower-tier cities and NEV manufacturers and automobile dealerships also face numerous challenges with regard to the sale, repair and maintenance of NEVs in large volumes, leading to an increasing market demand for related services in lower-tier cities, according to CIC. We are developing an automobile supply chain service mobile application where we could facilitate sales, delivery and other supply chain services of NEVs. Our automobile supply chain service mobile application commenced trial operation in April 2023. Via this mobile application, NEV manufacturers can authorize us to select and cooperate with downstream automobile dealerships and service providers for sales and services in areas that the NEV manufacturers do not have direct business coverage. We plan to monetize such mobile application in the future by potentially charging commissions from NEV manufacturers for facilitating sales, delivery and other supply chain services of NEVs. The services we plan to provide via our mobile application are “asset-light” and will not subject us to inventory risk. This business initiative is based on our current assessment of market prospects and is at an incubation stage. As the development of NEVs has brought incremental market opportunities for market participants, we believe that the landscape for such services, especially in China’s lower-tier cities, will become increasingly competitive in the future. Through our mobile application and services, we aim to support sales growth of NEVs and improve the quality of services provided by NEV manufacturers.

We expect that our expansion in the NEV market will provide us with more “touch points” with our existing and potential user base, thereby leading to a potential increase in our market share for pledged vehicle monitoring services and automobile dealership operation management services.

Refine human resource management and enlarge talent pool

Our talented and experienced employees are essential to our business development and expansion. To support our long-term business development, we plan to implement a series of human resource polices to strengthen our human resource system so as to attract and retain talents, enhance their competencies and keep them competitive.

We intend to further improve our internal growth systems. We customize the training programs for employees based on their career paths and help them grow. Our promotion channels also offer employees fair chances to compete and further facilitate their career progression.

We plan to optimize our remuneration incentive systems to further incentivize our employees’ performance. The incentive systems are set up to provide competitive welfare packages to our employees and offer timely promotions and bonuses in recognition of our employee’s hard work and outstanding performance. Our incentive systems are designed in line with our business strategies, which is expected to align the interests of our employees with our business prospects.

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OUR BUSINESS LINES

We operate two business lines: (i) pledged vehicle monitoring services; and (ii) automobile dealership operation management services.

During the Track Record Period, we primarily generated revenue from pledged vehicle monitoring services, which accounted for 100.0%, 100.0%, 92.2% and 90.2% of our revenue in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively. In April 2022, we started to provide operation management services to automobile dealerships. In 2022 and the six months ended June 30, 2023, 7.8% and 9.8% of our revenue was generated from automobile dealership operation management services, respectively.

We typically enter into tripartite agreements with financial institutions and automobile dealerships for our pledged vehicle monitoring services. Although our pledged vehicle monitoring services are designed to help financial institutions manage secured financing provided to automobile dealerships, we consider the paying party under the tripartite agreements as our customer, which may be either financial institutions or automobile dealerships, depending on the negotiation among the contracting parties, and we consider both financial institutions and automobile dealerships as our users. See “—Pledged Vehicle Monitoring Services—Key Terms of Pledged Vehicle Monitoring Service Agreements” for more details.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, we had entered into 10,963, 12,271, 14,577 and 15,537 agreements, respectively, with our users for our pledged vehicle monitoring services and automobile dealership operation management services. The following table sets forth a breakdown of the number of our service agreements and our total revenue by business line and by user ownership as of the dates and for the periods indicated.

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	As of/For the year ended December 31,				As of/For the six months ended June 30,																
	2020		2021		2022		2023														
	Number of agreements	Revenue % (RMB'000)	Number of agreements	Revenue % (RMB'000)	Number of agreements	Revenue % (RMB'000)	Number of agreements	Revenue % (RMB'000)													
Pledged Vehicle																					
Monitoring Services																					
- Related-party users	10	0.1	1,729	0.4	9	0.1	5,793	1.2	12	0.1	1,284	0.2	7	0.1	1,024	0.4	8	0.1	157	0.1	
- Independent-Third-Party users	10,953	99.9	428,858	99.6	12,262	99.9	471,904	98.8	14,491	99.4	503,765	92.0	12,739	99.4	244,736	94.6	15,451	99.4	278,910	90.1	
<i>Subtotal</i>	10,963	100.0	430,587	100.0	12,271	100.0	477,697	100.0	14,503	99.5	505,049	92.2	12,746	99.5	245,760	95.0	15,459	99.5	279,067	90.2	
Automobile Dealership Operation																					
Management Services																					
- Related-party users	-	-	-	-	-	-	-	-	73	0.5	42,785	7.8	73	0.5	12,892	5.0	73 ⁽¹⁾	0.5	30,281	9.8	
- Independent-Third-Party user	-	-	-	-	-	-	-	-	1	0.0	33	0.0	-	-	-	-	1	0.0	83	0.0	
<i>Subtotal</i>	-	-	-	-	-	-	-	-	74	0.5	42,818	7.8	73	0.5	12,892	5.0	74	0.5	30,364	9.8	
Total	10,963	100.0	430,587	100.0	12,271	100.0	477,697	100.0	14,577	100.0	547,867	100.0	12,819	100.0	258,652	100.0	15,533	100.0	309,431	100.0	

Notes:

(1) One of the automobile dealership operation management service agreements that we entered into with related-party users was for our management of two dealerships.

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The following table sets forth a breakdown of our total revenue by business line and by type of paying customer for the periods indicated.

	For the Year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	(RMB'000)	% (RMB'000)	(RMB'000)	% (RMB'000)	(RMB'000)	% (RMB'000)	(RMB'000)	% (RMB'000)	(RMB'000)	% (RMB'000)
	<i>(unaudited)</i>									
Pledged Vehicle										
Monitoring Services										
– Related parties	1,729	0.4	9,342 ⁽¹⁾	2.0	39,033 ⁽¹⁾	7.1	21,601 ⁽¹⁾	8.3	19,240 ⁽¹⁾	6.2
– Independent Third Parties	428,858	99.6	468,355 ⁽²⁾	98.0	466,016 ⁽²⁾	85.1	224,159 ⁽²⁾	86.7	259,827 ⁽²⁾	84.0
<i>Subtotal</i>	430,587	100.0	477,697	100.0	505,049	92.2	245,760	95.0	279,067	90.2
Automobile										
Dealership										
Operation										
Management										
Services										
– Related parties	–	–	–	–	42,785	7.8	12,892	5.0	30,281	9.8
– Independent Third Party	–	–	–	–	33	0.0	–	–	83	0.0
<i>Subtotal</i>	–	–	–	–	42,818	7.8	12,892	5.0	30,364	9.8
Total	430,587	100.0	477,697	100.0	547,867	100.0	258,652	100.0	309,431	100.0

Notes:

- (1) Including revenue derived from (i) 1, 2, 2 and 2 Unassigned Agreements from Changjiu Group as of December 31, 2021 and 2022 and June 30, 2022 and 2023, respectively; and (ii) 1,059, 794, 1,137 and 649 Unassigned Agreements from Independent Third Parties as of December 31, 2021 and 2022 and June 30, 2022 and 2023, respectively. The revenue generated from automobile dealerships under Unassigned Agreements and Entrustment Agreement was RMB3.6 million, RMB37.8 million, RMB20.6 million and RMB19.1 million in 2021 and 2022 and in the six months ended June 30, 2022 and 2023, respectively, accounting for 0.8%, 6.9%, 8.0% and 6.2% of our total revenue during the same periods, respectively.
- (2) Excluding revenue derived from 1,059, 794, 1,137 and 649 Unassigned Agreements from Independent Third Parties as of December 31, 2021 and 2022 and June 30, 2022 and 2023, respectively, which amounted to RMB3.5 million, RMB37.7 million, RMB20.6 million and RMB19.1 million in 2021 and 2022 and in the six months ended June 30, 2022 and 2023, respectively.

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PLEGGED VEHICLE MONITORING SERVICES

Overview

According to CIC, automobile dealerships in China typically adopt an asset-heavy business model under which they need to order and pay for vehicles in advance to maintain a certain inventory level. To improve their working capital turnover, it is market practice for automobile dealerships to purchase vehicles with secured financing from financial institutions, which primarily include commercial banks and automobile finance companies. The secured financing is typically secured by the vehicles that automobile dealerships are purchasing. However, according to CIC, financial institutions historically faced multiple challenges in managing the pledged vehicles under their secured financing arrangements with automobile dealerships, including (i) a financial institution might provide secured financing to multiple automobile dealerships that are not only geographically apart from the financial institution but also scattered across the country, making it time-consuming for financial institutions to monitor and conduct inventory taking of the pledged vehicles for each automobile dealership in a timely manner, and as a result, (a) the pledged vehicles may be stolen, damaged or sold without the financial institutions' authorization; and (b) the vehicle conformity certificates of the pledged vehicles may be mortgaged without the financial institutions' knowledge; (ii) the vast number of pledged vehicles, which are time-consuming, costly and inefficient to count manually; and (iii) the scarce technological capacity to continuously launch new features based on changing market demands. This gives rise to a need by the financial institutions to keep track of the pledged vehicles accurately and efficiently from a pledged vehicle monitoring perspective. Our pledged vehicle monitoring services facilitate the effective and cost-efficient monitoring of pledged vehicles, enabling financial institutions to manage automobile dealerships' secured financing more seamlessly.

The table below sets forth (i) the services we provide; and (ii) the information systems and technologies we use to provide our services throughout the whole process during which financial institutions provide secured financing to automobile dealerships.

Services that we provide	<ul style="list-style-type: none">• Pledged vehicle monitoring and lockbox services (periodic/real-time)• Collective management of vehicle conformity certificate• Counting service
Information systems and technologies that we use	<ul style="list-style-type: none">• VFS system & Vehicle Connect• RFID labels• PDAs• OBD devices• Lockboxes (traditional/electronic)

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For a description of the nature and the function of each of the information systems and technologies that we use to provide our services in each stage, please see “—Pledged Vehicle Monitoring Services—Pledged Vehicle Monitoring System.”

In addition to possessing in-depth industry knowledge, we have two primary competitive advantages in comparison with our peers: (i) our pledged vehicle monitoring system enables us to monitor pledged vehicles and use the data collected to analyze and report potential risk events of automobile dealerships through our VFS system based on pledged vehicles’ data collected from automobile dealerships via our RFID labels, PDAs and OBD devices; and (ii) Vehicle Connect, a mobile application that we launched and integrated into our pledged vehicle monitoring system, allows both financial institutions and automobile dealerships to access the location and activities information of pledged vehicles as well as obtain market information of the automobile industry, which help reduce communication costs and human errors. As advised by CIC, as of the Latest Practicable Date, certain of our peers, including two of the top five pledged vehicle monitoring service providers in the industry, did not have a comprehensive digital system to facilitate their services, and relied heavily on manual monitoring and counting of pledged vehicles. Considering the comprehensive information system that we use to facilitate real-time pledged vehicle monitoring for our customers, and our expertise and in-depth knowledge of the automobile sales and distribution industry as well as the practicable difficulties faced by financial institutions in pledged vehicle monitoring, we believe we have distinguished ourselves from our competitors.

Users of our pledged vehicle monitoring services consist of financial institutions, which primarily include commercial banks and automobile finance companies, and automobile dealerships with pledged vehicles. As of June 30, 2023, we provided pledged vehicle monitoring services to (i) approximately 200 branches of 18 commercial banks, including all of China’s “Big Six” national state-owned commercial banks and 12 joint-stock commercial banks; (ii) 27 automobile finance companies; and (iii) 11,152 automobile dealerships. Typically, we enter into tripartite pledged vehicle monitoring service agreements with both financial institutions and automobile dealerships. A single automobile dealership may enter into tripartite pledged vehicle monitoring service agreements with us and multiple financial institutions for different secured financing. Although our pledged vehicle monitoring services are designed to help financial institutions manage secured financing provided to automobile dealerships and our service fees are typically paid by financial institutions, we consider the paying party under the tripartite agreements as our customer, which may be either financial institutions or automobile dealerships, depending on the negotiation between them, and we consider both financial institutions and automobile dealerships as our users. To the best of our knowledge, the negotiations regarding the paying party of our pledged vehicle monitoring services may take into consideration (i) financial institutions’ past experience with automobile dealerships, or automobile dealerships’ track record; and (ii) the amount of secured financing. If an automobile dealership is a regular borrower with a decent track record as manifested by timely interest payment and principal repayment, or if the secured financing that an automobile dealership borrows is sufficiently large, the financial institution may be the paying party of our services after negotiations with the dealership. Such practice is in line with the industry norm as advised by CIC. As of June 30, 2023, we provided pledged vehicle monitoring services to over 10,000 automobile dealerships in over 500 cities across 31 provinces in China.

BUSINESS

Key Operating Metrics

The table below sets forth the movement of the number of our pledged vehicle monitoring service agreements during the Track Record Period.

	For the years ended December 31,			For the six months ended June 30,	
	2020	2021	2022	2022	2023
At the beginning of the period	9,631	10,963	12,271	12,271	14,503
New engagement	4,752	5,319	6,411	2,708	3,615
Termination	(3,420)	(4,011)	(4,179)	(2,233)	(2,659)
At the end of the period	10,963	12,271	14,503	12,746	15,459

We recorded termination of 3,420, 4,011, 4,179, 2,233 and 2,659 pledged vehicle monitoring service agreements, respectively, in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, primarily because after automobile dealerships have sold all the pledged vehicles or repaid the secured financing, the relevant financial institutions would typically send us a notice to terminate the pledged vehicle monitoring service agreements with us as required by the relevant contractual terms. According to CIC, in the automobile sales and distribution industry in China, after an automobile dealership sells all the pledged vehicles or repaid its secured financing, it is common for the financial institution to send a termination notice to the relevant pledged vehicle monitoring service provider instead of continuing to use its monitoring services to cover the dealership’s new pledged vehicles, or wait till the pledged vehicle monitoring service agreement expires.

As of December 31, 2020, 2021 and 2022 and June 30, 2022 and 2023, we monitored approximately 636,100, 525,500, 710,400, 580,400 and 786,700 pledged vehicles, respectively. The number of pledged vehicles that we monitored decreased from 636,100 as of December 31, 2020 to 525,500 as of December 31, 2021, primarily due to a decrease in the demand for new vehicles and a slowdown in automobile transactions at automobile dealerships as a result of the COVID-19 pandemic. As the market recovered and the sales volume of new vehicles increased in 2022, the number of pledged vehicles we monitored increased to 710,400 as of December 31, 2022.

BUSINESS

The following table sets forth the number of users of our pledged vehicle monitoring services as of the dates indicated.

	As of December 31,			As of June 30,	
	2020	2021	2022	2022	2023
Financial institutions	211	206	219	206	223
– Commercial bank branches	183	179	195	180	196
– Automobile finance companies	28	27	24	26	27
Automobile dealerships	8,316	9,205	10,684	9,700	11,152

During the Track Record Period, we generally won pledged vehicle monitoring service engagements through our market reputation, backed by our application of technology to monitor pledged vehicles. In addition, we proactively explore new business opportunities by reaching out to local branches of financial institutions and automobile dealerships.

Our pledged vehicle monitoring service agreements have either a fixed term of one year or an unfixed term until our services are no longer needed by financial institutions. Financial institutions and automobile dealerships may renew their pledged vehicle monitoring service agreements with us prior to their expiration.

The following table sets forth the user-based net expansion rate of our pledged vehicle monitoring services by type of users which primarily consist of financial institutions, including commercial bank branches and automobile finance companies, and automobile dealerships, for the periods indicated. To calculate the user-based net expansion rate for a given period, we divide the difference between the number of our users as of the end and as of the beginning of that period by the corresponding number as of the beginning of the given period.

	For the year ended December 31,			For the six months ended June 30,	
	2020	2021	2022	2022	2023
	(%)				
Financial institutions	(3.7)	(2.4)	6.3	0.0	1.8
– Commercial bank branches	(4.7)	(2.2)	8.9	0.6	0.5
– Automobile finance companies	3.7	(3.6)	(11.1)	(3.7)	12.5
Automobile dealerships	10.5	10.7	16.1	5.4	4.4
Overall	6.8	10.4	15.9	5.3	4.3

BUSINESS

Our user-based net expansion rate of commercial bank branches increased from a net contraction rate of 2.2% in 2021 to a net expansion rate of 8.9% in 2022, and our user-based net expansion rate of automobile dealerships increased from 10.7% in 2021 to 16.1% in 2022, primarily due to the rapid growth of the NEV market in 2022. As the NEV market expanded, automobile dealerships’ demand for secured financing to purchase NEVs increased, and commercial bank branches’ demand for our pledged vehicle monitoring services to monitor pledged NEVs increased in tandem. Our user-based net expansion rate of automobile finance companies increased from a net contraction of 3.7% in the six months ended June 30, 2022 to a net expansion rate of 12.5% in the six months ended June 30, 2023, primarily because our automobile finance company users slightly decreased from 27 as of December 31, 2021 to 26 as of June 30, 2022, and subsequently increased back to 27 as of June 30, 2023, which was a normal fluctuation during the course of our business.

The following table sets forth the retention rate of our pledged vehicle monitoring services by type of users for the years indicated. To calculate the retention rate for a given year, we divide the number of users as of the end of that year who were also our users as of the end of the previous year by the number of users as of the end of the previous year.

	For the years ended December 31,		
	2020	2021	2022
	<i>(%)</i>		
Financial institutions	66.8	83.9	92.4
Automobile dealerships	81.7	82.4	84.9

During the Track Record Period, our retention rate of financial institutions steadily increased from 66.8% in 2020 to 83.9% in 2021, then to 92.4% in 2022, primarily because we (i) continuously upgraded our VFS system and Vehicle Connect to facilitate our pledged vehicle monitoring services for financial institutions; and (ii) improved our services and products based on financial institutions’ demands and feedbacks. During the Track Record Period, our retention rate of automobile dealerships remained relatively stable.

In each of the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, the average revenue contribution by our top ten customers in that period was RMB12.3 million, RMB13.5 million, RMB17.6 million and RMB10.4 million, respectively.

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The following table sets forth (i) the average and the range of monthly service fees that the charged for our pledged vehicle monitoring services; and (ii) the average and the range of duration of our pledged vehicle monitoring service agreements in 2020, 2021, 2022 and the six months ended June 30, 2023.

	For the years ended December 31,			For the six months ended June 30,
	2020	2021	2022	2023
Average service fee (RMB/month/service agreement) ⁽¹⁾	3,564	3,527	3,252	3,206
Range of service fee (RMB/month/service agreement)	1,459- 14,500	1,800- 11,600	1,800- 8,100	1,600- 10,800
Average agreement duration (days) ⁽²⁾	636	716	722	713
Range of agreement duration (days) ⁽²⁾	1-4,400	1-5,145	1-5,214	1-5,562

Notes:

- (1) Average service fee per month is calculated by dividing our revenue from pledged vehicle monitoring services in a period by (i) the number of pledged vehicle monitoring service agreements that we had entered into as of the end of that period, and by (ii) twelve.
- (2) Agreement duration refers to the actual length of time that we provided our pledged vehicle monitoring services, including those that we were entrusted to provide under the Unassigned Agreements, to an automobile dealership that obtained secured financing from a particular financial institution without interruption.

The following table sets forth the expiration schedule of our existing pledged vehicle monitoring service agreements as of the Latest Practicable Date.

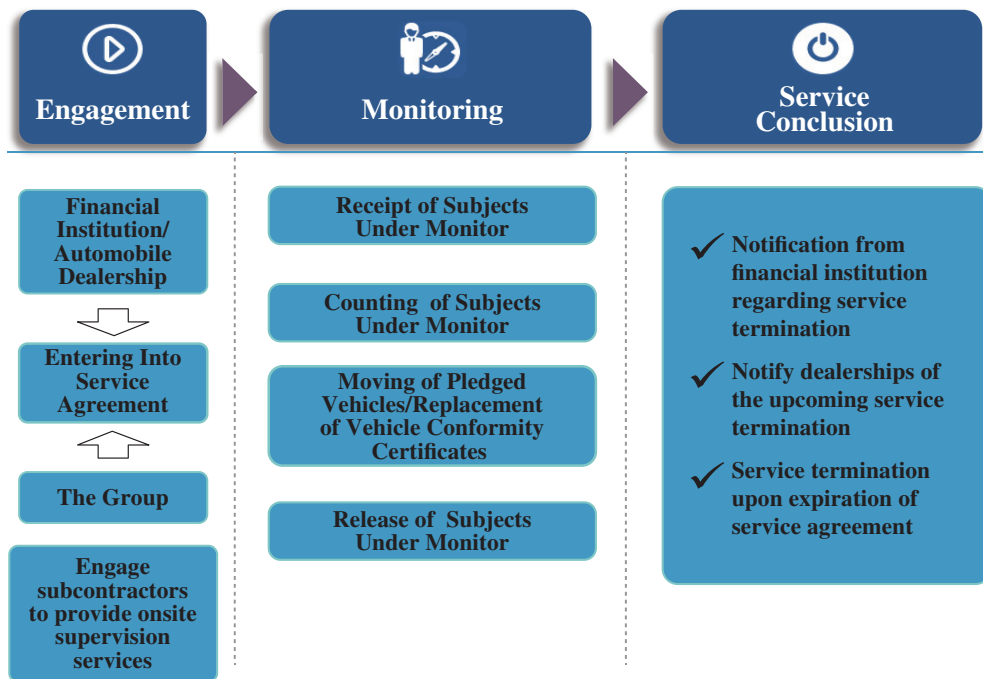
	As of the Latest Practicable Date
Service agreements without fixed terms	12,904
Service agreements with fixed terms expiring in:	
– Year ending December 31, 2023	355
– Year ending December 31, 2024	2,722
– Year ending December 31, 2025	682
– Year ending December 31, 2026 and beyond	252
Total	16,915

BUSINESS

Pledged Vehicle Monitoring System

We utilize a pledged vehicle monitoring system that leverages to enhance our capabilities to improve customer experience, reduce reliance on manual labor, and lower operating costs. Our pledged vehicle monitoring system is composed of (i) the VFS system and Vehicle Connect, which is a mobile application that provides access to the information collected by the VFS system; (ii) RFID labels; (iii) PDAs; (iv) OBD devices; and (v) traditional and electronic lockboxes. We own the copyrights of our VFS system and Vehicle Connect. We also own the patents of the PDAs, the OBD devices and the lockboxes, and engage independent third parties to manufacture them.

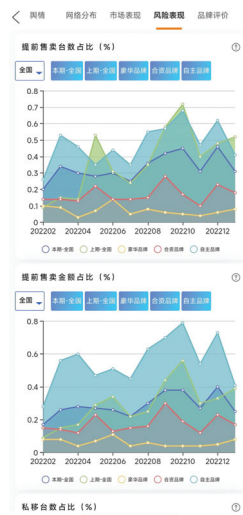
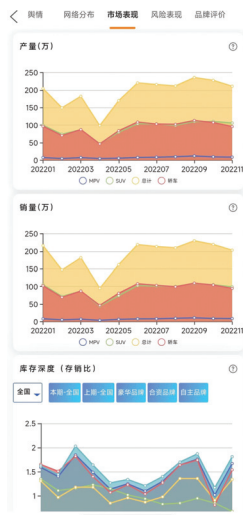
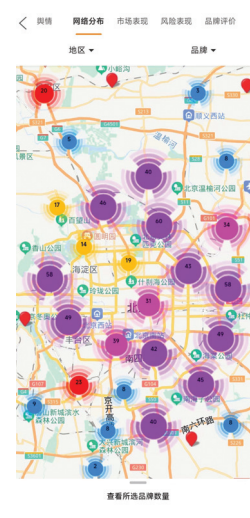
The following diagram illustrates our pledged vehicle monitoring system and how it integrates and creates synergy with our services, allowing us to monitor pledged vehicles and assess automobile dealerships across China from our headquarters.



BUSINESS

VFS System and Vehicle Connect

Our VFS system is a multifunctional IT solution with online operation, automatic alert and pledged vehicle monitoring modules and a pool of over 20,000 preset commands, which allows financial institutions to readily choose the settings that best suit their risk management needs without having to create the commands from scratch. Our VFS system was developed based on our industry insights and interactions with both financial institutions and automobile dealerships. Vehicle Connect is a mobile application that allows (i) financial institutions and automobile dealerships to access our VFS system on their mobile terminal; and (ii) financial institutions to choose and apply the aforementioned settings. The screenshots below show the main user interface of Vehicle Connect.



BUSINESS

Through our VFS system and Vehicle Connect, financial institutions can (i) access the location and activities information of pledged vehicles collected by our OBD devices; (ii) process certain requests and documentations, such as granting automobile dealerships permissions to access car keys that are held in our custody for customers' test drives, from automobile dealerships online; (iii) customize rules and permissions governing automobile dealerships' rights over the pledged vehicles; and (iv) tailor risk alert triggers based on their own risk management needs.

The second generation of our VFS system and Vehicle Connect was launched in 2018. We have been continuously upgrading them through iteration developments to incorporate modules that help facilitate automobile dealerships' secured financings from financial institutions and reflect our industry insights. As of the Latest Practicable Date, only we and the users of our pledged vehicle monitoring services had access to our VFS system and/or Vehicle Connect; we had not licensed our VFS system or Vehicle Connect to any other players in the automobile sales and distribution industry.

RFID Labels

Our RFID labels, which are typically affixed on vehicles' windshields, are economical means to automate the periodic monitoring of pledged vehicles, which gives financial institutions and automobile dealerships a snapshot of the static information of the pledged vehicles, such as the total count as well as their respective makes and models. Each of our RFID labels has (i) a microchip that contains certain information of the vehicle on which the RFID label is affixed, such as the vehicle identification number ("VIN"); and (ii) an antenna that transmits signals at certain frequencies, allowing information stored on the microchip to be read by our patented PDAs held by staff designated by our subcontractors at an automobile dealership, which allows the dealership to readily record and synchronize information of its pledged vehicles to our VFS system. Our RFID labels also have an anti-removal feature. When the pledged vehicles are under our monitoring, any unauthorized attempt to remove our RFID label without following a specific procedure will result in its breaking into pieces with the microchip and RFID antenna still adhered to the windshield, allowing us to continue our periodic monitoring of the pledged vehicle by reading the signals transmitted by its RFID antenna with our PDAs; if the microchip and RFID antenna are removed by force, no signal could be transmitted or picked up by our PDAs during periodic monitoring, and our VFS system will detect such missing signal and send a risk alert to the relevant financial institution. After the pledged vehicles are sold and no longer under our monitoring, the RFID labels could be properly removed by the dealership.

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PDA's

Our PDAs are handheld radio frequency transmitting and receiving devices that can read information from and write information on our RFID labels. When automobile dealerships' employees or staff designated by our subcontractors who provided onsite supervision services hold the PDAs and approach the pledged vehicles, the PDAs will take inventory by simultaneous reading the signals transmitted from the RFID labels and identifying pledged vehicles within a short distance. Afterwards, when automobile dealerships' employees or staff designated by our subcontractors who provided onsite supervision services bring the PDAs into a Wi-Fi environment or connect the PDAs to their mobile devices via Bluetooth, our PDAs are capable of synchronizing the information they have read from the RFID labels to our VFS system via either Wi-Fi or the mobile devices' cellular network.

OBD Devices

Our OBD devices, which are typically plugged in ports beneath vehicles' dashboards, enable the effective monitoring of pledged vehicles in real time. We offer our customers two types of OBD devices: (i) our Global Positioning System ("GPS") OBD devices are equipped with GPS and are capable of Global System for Mobile ("GSM") transmission, which record and transmit information most accurately; and (ii) our Bluetooth OBD devices are Bluetooth compatible and are capable of short-range wireless transmission. When a pledged vehicle is under our monitoring, once our OBD device is plugged in, it automatically records details about the pledged vehicle at all times, whether the engine is on or off, and transmits such information to our VFS system. The information we record primarily include lengths of time a vehicle is moving or stationary during a journey, speeds at which it is driven, the distance it travels between stops, the time, date and route of a journey and its VIN. If the OBD device is removed without our authorization, our VFS system will detect a gap in the information recording, and will send a risk alert to the relevant financial institution. After the pledged vehicles are sold and no longer under our monitoring, automobile dealerships will remove the OBD devices plugged in the pledged vehicles.

Lockboxes

Historically we provided our lockbox services through traditional lockboxes, which constituted the majority of the lockboxes that we placed on automobile dealerships' sites or in the locations mutually agreed upon by the financial institutions and automobile dealerships. To enhance the security of the vehicle conformity certificates and car keys that we hold in custody, facilitate automation as well as increase the efficiency of our lockbox services, and enhance customer experience, we completed the development of the fifth generation of electronic lockboxes in 2022, and plan to launch it in 2024. We also plan to continuously upgrade and promote the use of our electronic lockboxes among our customers. See "Future Plans and Use of [REDACTED]—Use of [REDACTED]." During the Track Record Period, substantially all of our lockbox services were provided via traditional lockboxes.

BUSINESS

Our electronic lockboxes are Wi-Fi- and Bluetooth-compatible safes that help store and secure vehicle conformity certificates and car keys that we hold in custody. Our electronic lockboxes can be connected to our VFS system, through which we are able to remotely assign and reset PIN codes that are used to unlock them, providing an extra layer of security to the vehicle conformity certificates and car keys held therein. Our electronic lockboxes are typically placed on automobile dealerships’ sites or in the locations mutually agreed upon by the financial institutions and automobile dealerships. Each access to our electronic lockboxes is traceable, and it can be readily verified whether a PIN code has been used to open a electronic lockbox.

Scope of Services

We provide our users with any one or any combination of the following services: (i) pledged vehicle monitoring and lockbox services; (ii) collective management of vehicle conformity certificates; (iii) counting of pledged vehicles, vehicle conformity certificates and car keys; and (iv) other ancillary services, such as providing financial institutions additional risk alerts to report regional and market emergencies and other events that might prevent the automobile dealerships or us from fulfilling our respective contractual obligations under the tripartite service agreements, which is not a standard service under a typical tripartite service agreement. Financial institutions and automobile dealerships can choose the service(s) that best suit their needs. Our service fees are typically paid by financial institutions. Nevertheless, either financial institutions or automobile dealerships may pay for our services under the tripartite service agreements, depending on the negotiation between them. To the best of our knowledge, the negotiations regarding the paying party of our pledged vehicle monitoring services may take into consideration (i) financial institutions’ past experience with automobile dealerships, or automobile dealerships’ track record; and (ii) the amount of secured financing. If an automobile dealership is a regular borrower with a decent track record as manifested by timely interest payment and principal repayment, or if the secured financing that an automobile dealership borrows is sufficiently large, the financial institution may be the paying party of our services after negotiations with the dealership. Such practice is in line with the industry norm as advised by CIC. For description of the pricing of our services, please see “—Pricing—Pricing Models—Pledged Vehicle Monitoring Services.”

For our pledged vehicle monitoring and lockbox services: We provide two types of monitoring services: periodic and real-time. In 2020, 2021, 2022 and the six months ended June 30, 2023, in terms of the revenue we generated from pledged vehicle monitoring services, 95.4%, 96.8%, 97.2% and 94.3% of our pledged vehicle monitoring services, respectively, were performed under the periodic method, and 4.6%, 3.2%, 2.8% and 5.7% of our pledged vehicle monitoring services, respectively, were performed under the real-time method.

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Periodic. We help facilitate the periodic monitoring of pledged vehicles through our RFID labels, PDAs and VFS system at contractually agreed intervals. Our PDAs allow automobile dealerships' employees or the onsite staff designated by our subcontractors to (i) count pledged vehicles within a certain parameter by simultaneously scanning and recording the signals transmitted by the RFID label affixed on each inventory vehicle; and (ii) synchronize the information recorded, such as the total number and the VINs of pledged vehicles, to our VFS system. Since our periodic pledged vehicle monitoring services give financial institutions and automobile dealerships a mere snapshot of the static information of the pledged vehicles, such as the total number of vehicles as well as their respective brands and models, at the time of inventory counting, it is a relatively economical option in comparison to our real-time pledged vehicle monitoring services. We typically recommend periodic pledged vehicle monitoring services to financial institutions to whom cost efficiency is a priority.

Real-time. We help monitor the locations and various activities of automobile dealerships' pledged vehicles through our OBD devices, VFS system and the onsite staff designated by our subcontractors who provide onsite supervision services. Pledged vehicles' operation information is recorded in realtime by our OBD devices and synchronized to our VFS system. Our OBD devices produce, and our VFS system allows a financial institution to access, a continuous record of vehicle operation, allowing instant and automatic detection when any pledged vehicle is stolen or driven out of the automobile dealership's lot without permission from the financial institution in its capacity as creditor. Since our real-time pledged vehicle monitoring services offer financial institutions and automobile dealerships the most up-to-date information while enabling them to interact with data through data analytics, such as extracting or generating the sales trends of pledged vehicles as well as visualizing automobile dealerships' inventory level by region, brand and model through data analytics, it is a more effective option and a more dynamic decision-making resource in comparison to our periodic pledged vehicle monitoring services. We typically recommend real-time pledged vehicle monitoring services to financial institutions with lower risk acceptance.

Please see "—Employees" for more details regarding the respective duties of our employees under the our pledged vehicle monitoring service department and the onsite staff designated by our subcontractors.

We also provide lockbox service, under which we hold the vehicle conformity certificates and car keys of pledged vehicles designated by the financial institution in its capacity as creditor. We use both traditional lockboxes, which use lockbox keys without Wi-Fi or Bluetooth connectivity for remote PIN code reset or assignment, and electronic lockboxes, which can connect to our VFS system and require a PIN code assigned by us to access. Unless authorized by the financial institution, which typically happens when a customer of the automobile dealership needs to test drive or has bought a pledged vehicle, no one shall be able to open, move, take control or damage the lockboxes. Typically we place our lockboxes on automobile dealerships' sites or in the locations mutually agreed upon by the financial institutions and automobile dealerships.

BUSINESS

For our collective management services of vehicle conformity certificates: Our staff collectively keep the vehicle conformity certificates of an automobile dealership's pledged vehicles in custody in the cities where it locates. A vehicle conformity certificate is a document issued by the manufacturer of a vehicle that contains information about the vehicle and certifies that it has been manufactured in conformity with the relevant safety and environmental regulations. A vehicle conformity certificate is required for the transfer of title and registration of a vehicle. We typically receive, verify, scan and release the vehicle conformity certificates per financial institutions' instructions and upon their authorization, which helps not only cross-check the number of pledged vehicles but also prevent automobile dealerships' unauthorized sales of pledged vehicles.

For our counting service: On financial institutions' demand, we deploy staff designated by our subcontractors who provide onsite supervision services to count the automobile dealerships' pledged vehicles as well as their vehicle conformity certificates and car keys to ensure they match the information recorded on our VFS system via our RFID labels, PDAs and OBD devices. In 2020, 2021, 2022 and the six months ended June 30, 2023, our counting services were performed by the onsite staff designated by our subcontractors either manually or with the assistance of our RFID labels and PDAs (the "Onsite Counting Services") at 10,602, 12,022, 14,134 and 15,066 automobile dealerships, respectively, and our counting services were performed by OBD devices (the "Remote Counting Services") at 361, 249, 369 and 393 automobile dealerships, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2023, the ratio of Onsite Counting Services versus Remote Counting Services in terms of the number of automobile dealerships where we performed counting services was 96.7% to 3.3%, 98.0% to 2.0%, 97.5% to 2.5% and 97.5% to 2.5%, respectively. Our Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, in terms of the number of automobile dealerships where we performed counting services, only 2.0% or less of our Onsite Counting Services were performed manually.

Typically, before we commence our monitoring services, we will (i) create an account for the financial institution and the automobile dealership on our VFS system; and (ii) dispatch onsite staff with the necessary equipment and hardware, including our lockboxes, to the designated dealership. Upon the arrival of the pledged vehicles at the dealership's store or showroom, the onsite staff designated by our subcontractors will (i) affix RFID labels or install OBD devices on the pledged vehicles according to the relevant tripartite pledged vehicle monitoring service agreement; and (ii) collect and keep the vehicle conformity certificates as well as the car keys of the pledged vehicles in our lockbox. Afterwards, the onsite staff designated by our subcontractors will use our PDAs to count the pledged vehicles periodically, or our OBD devices will continuously record vehicle information. Such counting records and vehicle information will be synchronized to our VFS system, which will produce reports and sent risk alerts to the financial institution. We could also collectively manage the vehicle conformity certificates of a dealership's pledged vehicles by taking the certificates in custody in the cities where it locates. If a financial institution would like to ensure the accuracy of the information recorded on the VFS system or verify the actual condition of the pledged vehicles at a dealership, we will dispatch designated staff to perform counting of the pledged vehicles, vehicle conformity certificates and car keys as required.

BUSINESS

Key Terms of Pledged Vehicle Monitoring Service Agreements

We typically enter into tripartite agreements with (i) financial institutions that provide secured financing; and (ii) automobile dealerships that pledge their vehicles. The tripartite agreements typically include the following key terms:

- *Scope of services.* The agreements set out the objects to be monitored, which typically include motor vehicles, vehicle conformity certificates and car keys, the types or combination of services to be provided and specific service requirements.
- *Performance standards.* The agreements set forth specific standards and frequency for our main services. Typically we are obliged to keep the objects we monitor from unauthorized access, damage and loss.
- *Pledged vehicle monitoring service fees.* The agreements set forth the amount as well as the payment method of the fees that we charge for our services.

For our pledged vehicle monitoring services and lockbox services: Payments for our services in the next quarter are typically made in advance within at least five working days from the start of the current quarter. We also charge a late fee for overdue pledged vehicle monitoring services and lockbox service fees, which is typically 0.1% to 0.5% of the overdue amount.

For our collective vehicle conformity certificate management services: Payments for our services in the next quarter are typically made in advance within five working days from the start of the current quarter. We also charge a late fee for overdue collective vehicle conformity certificate management service fees, which is typically 0.5% of the overdue amount.

For our counting service: We offer flexible service and payment options to our customers, who can choose to pay us per number of counting service we provide.

If automobile dealerships are paying for our services, we typically collect prepayments for our pledged vehicle monitoring services, lockbox services and collective vehicle conformity certificate management services. If financial institutions are paying for our services, we might grant them a credit term of 15 to 60 days upon separate commercial negotiations on a case-by-case basis before we enter into service agreements.

See “—Pricing—Pricing Models—Pledged Vehicle Monitoring Services” for more details.

BUSINESS

- *Financial institutions' rights and obligations.* Financial institutions are entitled to supervise our services according to the standards included in the agreement. If onsite supervision services are needed, financial institutions are responsible for coordinating with automobile dealerships on the provision of office supplies and equipment. After financial institutions provide secured financing to automobile dealerships, financial institutions are typically responsible for sending us a list of pledged vehicles.
- *Automobile dealerships' rights and obligations.* Each tripartite agreement corresponds to one automobile dealership and designates one location where the pledged vehicles should be stored, which is typically the dealership's store or showroom. Automobile dealerships are primarily responsible for (i) providing a safe place for the storage of pledged vehicles; (ii) purchasing both property insurance and theft insurance for their pledged vehicles; (iii) ensuring that they purchased the pledged vehicles from legitimate sources and have ownership and disposal rights over such vehicles; and (iv) cooperating with us when we provide our services.
- *Our rights and obligations.* We are entitled to receive pledged vehicle monitoring service fees according to the relevant provisions in the agreement. We are responsible for (i) providing the services and equipment, where applicable, necessary for the provision of such services, including RFID labels, OBD devices and lockboxes, included in the agreement; (ii) cooperating with the supervision by our customers; (iii) notifying the financial institutions in a timely manner upon our discovery of any (a) damage or loss of the pledged vehicles, car keys or vehicle conformity certificates; or (b) accident that happened to the pledged vehicles; and (iv) offering relevant records and materials as necessary. A tripartite pledged vehicle monitoring service agreement typically does not stipulate that we shall bear joint and several liability with the automobile dealership in the event of its default in repayment of secured financing. However, if we fail to duly fulfill our obligations, such as timely reporting risk events to the relevant financial institutions, and such failure results in the damage or loss of the pledged vehicles, vehicle conformity certificates or car keys, we would be liable to compensate the relevant financial institution for its losses resulted from such damage or loss. During the Track Record Period and up to the Latest Practicable Date, we were involved in certain disputes alleging that we failed to fulfill our contractual obligations under tripartite service agreements, but we were not held liable in any dispute or incident and we did not pay financial institutions any such compensation. To prevent risk events, we have formulated the Management Measures of Risk Events (《長久金孚風險事件管理辦法》), which covers the procedures for the feedback, verification, early warning and on-site handling of risk events. Upon the discovery or identification of a risk event, our onsite staff typically reports such incident to his supervisor and concurrently notifies our employees in the pledged vehicle monitoring department of the incident's details; our employees will then begin to collect information from relevant parties and verify the incident, and send out a risk alert to the financial institution as soon as practicable via our VFS system.

BUSINESS

- *Term and termination of service.* The agreement term either has a fixed term of one year or an unfixd term until our services are no longer needed by financial institutions. We typically begin our monitoring services upon our receipt of a five-to ten-day commencement notice, and stop our services upon our receipt of a five-to ten-day termination notice, from financial institutions. Typically, financial institutions send us (i) the commencement notice immediately before or after they provide secured financing to automobile dealerships or the pledged vehicles arrive at the automobile dealerships; and (ii) the termination notice after automobile dealerships sell all the pledged vehicles or repaid the secured financing. Within the period prior to the termination of an agreement, we are typically responsible for continuing to provide our services while transitioning duties to our successor or the automobile dealership. Any of financial institutions, automobile dealerships and us have the right to terminate the tripartite agreements prior to the expiration of the agreement term for causes listed in the agreement. Such causes primarily include our failure to offer satisfactory services pursuant to the service standards included in the agreement and our customers' failure to pay for our services.
- *Data confidentiality.* Except for the information that we are authorized to collect, including but not limited to pledged vehicles' brands, models, VINs, status and movement, we do not collect any other information through our RFID labels and OBD devices.
- *Dispute resolution.* Parties are typically required to resolve any contractual dispute through negotiations first, failing which the dispute is to be resolved through court proceedings or other legal proceedings.

Data Security and Privacy

We primarily collect and process four types of business data, namely (i) data related to pledged vehicles, which mainly consists of the number, price, VIN, brand, model and manufacturing year of pledged vehicles; (ii) dealership-related data, which mainly consists of the names, location, contact information and brands of automobile dealerships; (iii) dealership operational data, which mainly consists of the sales prices of the pledged vehicles; and (iv) service-fee-related data, which mainly consists of the types of services, payment methods, billing cycles, amount receivable, actual amount collected, and receipt number of the services provided. As of the Latest Practicable Date, we had not entered into any agreement to share these business data we collect with any party other than those which are parties to the relevant pledged vehicle monitoring service agreements.

BUSINESS

In addition to the above business data, we collect, store and use personal data of staff from subcontractors and employees of commercial banks, automobile finance companies and automobile dealerships. Personal data we collect from subcontractors who provide onsite supervision services primarily include their names, dates of birth, phone numbers, ID numbers, addresses, work experience, education background and facial recognition data. The personal data we collect from employees of commercial banks, automobile finance companies and automobile dealerships when they register in our systems to use our services primarily include their names, phone numbers, job titles and work emails.

We have adopted various internal control measures and policies to ensure data security and privacy protection in relation to our internal operational data, as well as external data, such as customer data obtained through our information systems. Access to our information systems requires (i) the requisite level of permission; and (ii) identity authentication, including password. Certain sensitive data are encrypted and can only be accessed or desensitized for display with the authorization of a business segment manager of the relevant business unit. We have explained the terms and conditions to our users and have also gained their prior consent to the privacy policies of our systems before collecting their data. We implement strict access control to our physical server rooms and various online applications and systems, and only grant access to employees with legitimate business needs at the appropriate with designated password requirement. All unnecessary access to our database is prohibited. Customer-related data and company confidential information are not allowed to be distributed to external parties or uploaded to the Internet. Customer-related data also cannot be discarded at will unless approved by appropriate authority and in accordance with our internal data management policies. We also continuously monitor the operation status of our various information systems, analyze alarm records on a regular basis, and take necessary countermeasures as needed. We have established an information security management center to centrally monitor information leakage, malicious malware, patch upgrades and security audits. During the Track Record Period and as of the Latest Practicable Date, we had not experienced any information leakage or loss of user data, nor had we been subject to any fines, administrative penalties, or other sanctions by any relevant regulatory authorities in the PRC in relation to violation of cybersecurity, data security and personal data protection laws and regulations. Based on the foregoing, our PRC Legal Advisors are of the view that we are in compliance with the applicable PRC laws and regulations on cybersecurity, data security and personal data protection in all material respects.

BUSINESS

AUTOMOBILE DEALERSHIP OPERATION MANAGEMENT SERVICES

Overview

According to CIC, medium- and small-sized automobile dealerships in China generally lack managerial expertise, technological capabilities and sophisticated human resources system. Such dealerships face problems such as sloppy management and unprofessionalism. In light of the increasingly competitive nature of the automobile sales and distribution industry, medium- and small-sized automobile dealerships may find it difficult to rely solely on their own capabilities to achieve efficient operations, leading to an increasing need for specialized and professional management services. See “Industry Overview—Overview of China’s Automobile Dealership Operation Management Services Market.” To cater to such need, we began offering management services to medium- and small-sized automobile dealerships that seek more optimal business and financial performance in April 2022.

Our automobile dealership operation management services consist of automobile dealerships operational support, data system and managerial services. We initially launched our automobile dealership operation management services in some of Changjiu Group’s automobile dealerships, primarily because (i) we intended to optimize our services before expanding our offering to the wider market in light of our business relationship with Changjiu Group; and (ii) in the post-COVID-19 era, Changjiu Group sought to be the first mover in strategically improving the overall management and operational efficiency of over 70 automobile dealerships that it owned through digitalization. See “—Our Strategic Business Relationship with Changjiu Group” for more information. We believe our experience in providing pledged vehicle monitoring services to financial institutions and automobile dealerships, our national service network and our insights in the automobile sales and distribution industry yield us a comparative advantage over our competitors in the relatively early stage of the automobile dealership operation management market.

Since we commenced providing automobile dealership operation management services in April 2022, we had expanded our presence to 31 cities across 14 provinces in China. As of June 30, 2023, we had entered into 5 automobile dealership operation management service agreements with dealerships owned by Independent Third Parties. The table below sets forth information on these five dealerships owned by Independent Third Parties.

BUSINESS

	<u>Dealership A</u>	<u>Dealership B</u>	<u>Dealership C</u>	<u>Dealership D</u>	<u>Dealership E</u>
Location	Shouguang, Shandong	Shouguang, Shandong	Hengyang, Hunan	Hengyang, Hunan	Jinan, Shandong
Scale of operations (registered capital)	RMB10.0 million	RMB10.0 million	RMB7.0 million	RMB10.0 million	RMB50.0 million
Financial standing (revenue in 2022)⁽¹⁾	RMB162.7 million	RMB107.2 million	RMB143.7 million	RMB122.8 million	N/A
Years of establishment	2010	2017	2000	2002	2017
Business acquaintance	Through business development				
Term of service agreement	18 months	18 months	15 months	Five years	12 months
Scope of services	Professional services on business strategy and operation management; access to Smart Star; and support from the auto parts and supply procurement channels				
Whether we have recognized revenue	No	No	No	Yes	No

Note:

- (1) Source of data: Due diligence report prepared by an Independent Third Party business information company that we engaged.

Our Directors confirmed that none of our Group, our directors, shareholders or senior management, or any of their respective associates, had any past or present relationship, transaction or arrangement with any of the aforementioned five automobile dealerships or their respective associates during the Track Record Period and up to the Latest Practicable Date.

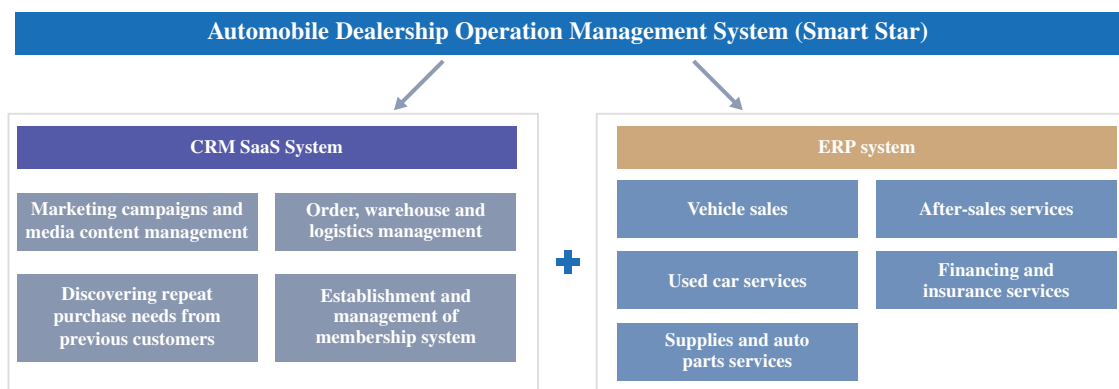
As of the Latest Practicable Date, we had also entered into non-legally binding letters of intent for our automobile dealership operation management services with 144 automobile dealerships, all of which are owned by Independent Third Parties. After signing the letters of intent, we typically (i) engage in further communication and negotiation with the automobile dealerships; (ii) commence evaluation of the automobile dealerships; and (iii) decide whether to enter into formal agreements with the automobile dealerships based on the evaluation reports, subject to market condition, our capacity and other commercial considerations.

BUSINESS

Operation Management System

To better support our provision of automobile dealership operation management services, we utilized an operation management system tailored for managing the daily operations of automobile dealerships, namely Smart Star (“智科星”), that consists of a customer relationship management (“CRM”) software-as-a-service (“SaaS”) system and an enterprise resource planning (“ERP”) system.

The following diagram illustrates our operation management system and how it facilitates our automobile dealership operation management services and enables us to manage automobile dealerships of different sizes and locations.



Our CRM SaaS system leverages data analytics for customer sourcing, sales management, marketing and promotions, and after-sales management. It helps automobile dealerships attract and retain customers by (i) launching marketing campaigns and managing media content; (ii) managing orders, warehouse and logistics of vehicles sales; (iii) creating user profiles and discovering repeat purchase needs from previous customers; (iv) establishment and management of membership system.

Our ERP system is equipped with business planning and tax management modules. It supports automobile dealerships’ (i) vehicle sales services through integrated management of prospective and potential customers, business process and orders for new vehicles; (ii) after-sales services through management of appointment, service provision and payment; (iii) financing and insurance services through management of customers’ automobile loans, automobile insurances and warranties; (iv) supplies and auto parts services through collective procurement of spare auto parts and inventory management; and (v) used car services through integrated management of purchase, storage, refurbishment, evaluation, pricing, consignment or replacement of used cars.

BUSINESS

Scope of Services

Operation Management Services

Before providing operation management services, we typically develop an understanding of prospective customers’ needs through onsite visits, interviews and preliminary data analysis. If we uncover any issues that might be risky or detrimental to the operation of an automobile dealership, we might decide not to provide our operation management services to such automobile dealership. Once we on-board an automobile dealership, we provide services that assist automobile dealerships’ marketing, sales of vehicles and automobile insurance, maintenance and regulatory inspection, such as compliance with relevant fire safety and environmental laws and regulations; grant automobile dealerships access to our operation management system, namely Smart Star (“智科星”), allowing them to categorize, process and visualize their operational data, such as inventory level, sales and number of customers; and provide automobile dealerships technology and human resource support, and help optimize and standardize their financial and accounting systems.

As the number of automobile dealerships under our management increases, we would be able to collect and analyze more samples, and our capability and efficiency of tailoring services to automobile dealerships in different regions under different market conditions grow in tandem.

Key Terms of Operation Management Service Agreements

Our operation management service agreements with automobile dealerships typically include the following key terms:

- *Dealerships serviced.* The agreements specify the entities to which we will be providing automobile dealership operation management services.
- *Scope of services.* The agreements set out the scope of our services, which typically includes our provision of (i) both onsite and remote professional services on business strategy, operation management and professional training of management teams; (ii) access to our digital system; and (iii) support from the auto parts and supply procurement channels, which we could recommend and refer to automobile dealership customers based on our operation team’s previous supplier resources which we understand from historical business development, as well as our business connections with financial institutions. The professional services on business strategy and support from auto parts and supply procurement channels that we provide are primarily based on (i) years of experience that our employees cultivated from the automobile sales and distribution industry; and (ii) our experience from our provision of pledged vehicle monitoring services as well as interactions with automobile dealerships.

BUSINESS

- *Term of service.* The agreement term is typically three years from the date of signing. The agreements may be renewed upon both parties' mutual consent in writing at least a month before the expiration dates of the agreements. Otherwise, the agreements will be automatically terminated after their expiration dates.
- *Payment methods and pricing.* We typically charge an annual management fee according to a schedule. Automobile dealerships are typically responsible for paying us a fixed management fee according to the following schedule: (i) 0.1% of their expected annual revenue payable within 15 days following the signing date of the automobile dealership operation management service agreements; and (ii) 0.4% of their actual quarterly revenue payable within seven days following the end of each of the subsequent quarters. See "—Pricing—Pricing Models—Automobile Dealership Operation Management Services." We also charge a late fee for overdue operation management service fees, which is typically 0.05% of the overdue amount, compounded daily.
- *Performance standards.* The agreements set forth specific standards and expectations for our main services. We are typically responsible for assisting automobile dealerships to (i) formulate annual business objectives, work plans and marketing strategies; (ii) determine operating budgets; (iii) streamline the operation process and improve the financial internal control systems of automobile dealerships; and (iv) provide trainings to their employees.
- *Automobile dealerships' rights and obligations.* The automobile dealerships retain the right to make material decisions with respect to their business operations, and are entitled to supervise our services according to the standards included in the agreement. The automobile dealerships are typically responsible for cooperating with our work, coordinating with the local government and regulatory agencies, and providing water, electricity, gas, telecommunication and other utilities. The automobile dealerships also bear all operating costs and expenses, including but not limited to purchase, marketing and sales expenses of vehicles, purchase and installation expenses of equipment and facility, interior decoration expenses and wages.
- *Our rights and obligations.* We are entitled to receive operation management service fees according to the relevant provisions in the agreement. We are responsible for providing the services included in the agreement, cooperating with the supervision by automobile dealerships and offering relevant records and materials as necessary.
- *Intellectual property.* Automobile dealerships shall not use our trademarks, logos, trade names, trade secrets or other intellectual property without our authorization. Except as stipulated in the agreement or otherwise agreed in writing by us, automobile dealerships do not have any right in any of our intellectual property. In addition, automobile dealership shall not copy or imitate the products or services provided by us.

BUSINESS

- *Dispute resolution.* Parties are typically required to resolve any contractual dispute through negotiation first, failing which the dispute is to be resolved through court proceedings or other legal proceedings.

PRICING

Pricing Models

Pledged Vehicle Monitoring Services

For our pledged vehicle monitoring services, we primarily use a cost-plus pricing model. Costs of our pledged vehicle monitoring services may vary depending on the average local salary and the manpower required. Markup may vary depending on (i) the city tier of the automobile dealerships and their pledged vehicles; and (ii) the scope of our services. We charge our related parties and Independent Third Parties for our pledged vehicle monitoring services according to the same fee schedule.

The monthly fees that we charge for our pledged vehicle monitoring services and lockbox services primarily depend on (i) city tiers, which takes into consideration the difference in labor costs in different cities; (ii) management model, which takes into consideration the time that the staff designated by our subcontractors is needed onsite and the difference in assignment of obligations; and (iii) service model, which takes into consideration the number of automobile dealerships to which a staff provides services and the corresponding subcontracting costs per dealership. Typically, all else being equal, the higher the city tier, the higher the subcontracting costs, which leads to higher monthly service fee per dealership; and the more dealerships a staff provides services to, the lower the subcontracting costs per dealership, which leads to lower monthly service fee per dealership. During the Track Record Period, the average service fee for our pledged vehicle monitoring services and lockbox services was approximately RMB3,400 per month/per service agreement, which aligns with industry average according to CIC.

The monthly fees that we charge for our collective vehicle conformity certificate management services primarily depend on (i) the number of automobile dealerships for which we collectively manage their vehicle conformity certificates; and (ii) the number of vehicle conformity certificates that we take custody of. Also, due to the physical limit of the storage space in our lockboxes, we might need to arrange for additional lockboxes to accommodate for the vehicle conformity certificates which exceed the storage capacity of our existing lockboxes. During the Track Record Period, the service fee for our collective vehicle conformity certificate management services was (i) RMB400.0 per month per pledged vehicle monitoring service agreement when we collectively managed vehicle conformity certificates under ten service agreements or more; and (ii) RMB800.0 per month per pledged vehicle monitoring service agreement when we collectively managed vehicle conformity certificates under less than ten service agreements, which falls within the industry range according to CIC.

BUSINESS

During the Track Record Period, the service fee for our counting services ranged from RMB100.0 to RMB1,000.0 per counting service, depending on various factors, such as (i) the respective locations of our onsite counting staff and the automobile dealerships; (ii) the objects to be counted, which include pledged vehicles, vehicle conformity certificates and car keys; and (iii) whether reports and photographs are needed, which falls within industry range according to CIC.

Automobile Dealership Operation Management Services

During the Track Record Period, we charged automobile dealerships owned by Changjiu Group, which constituted the majority of customers of our automobile dealership operation management services, an annual management fee according to the following schedule: (i) 0.1% of the automobile dealership’s expected annual revenue payable within 15 days following the signing date of the automobile dealership operation management service agreement; and (ii) 0.4% of the actual quarterly revenue payable within seven days following the end of each of the subsequent quarters.

However, due to the relatively early stage of automobile dealership operation management services, service providers, including us, are still exploring other pricing models and fee structures, such as variable management fee or incentive fee, that could better facilitate automobile dealership operation management services. For instance, in 2022 and the six months ended June 30, 2023, we adopted a combination of service fees in the five operation management service agreements that we entered into with the automobile dealerships owned by Independent Third Parties. As such, our pricing model and service fee are subject to negotiation with automobile dealerships on a case-by-case basis and may vary depending on our service scope and costs. Despite the different fee structures, the overall pricing and major terms of the five operation management service agreements were comparable with those of the operation management service agreements that we entered into with automobile dealerships owned by Changjiu Group.

Based on the automobile dealership operation management service agreements that we had entered into as of June 30, 2023, the management fees that we charge principally range from 0.3% to 0.5% of a dealership’s annual revenue, subject to adjustment with respect to a predetermined profit target. According to CIC, our pricing falls within the industry range, which was between 0.2% and 0.5% of the an automobile dealership’s annual revenue. See “Industry Overview—Sources of Information.”

We issue demand notes to our customers prior to payment due dates, and typically receive payments for our services after the issuance of the demand note. We primarily accept payments for service fees through online payment platforms and bank transfers.

BUSINESS

OUR STRATEGIC BUSINESS RELATIONSHIP WITH CHANGJIU GROUP

Overview

We have a longstanding strategic relationship with Changjiu Group, which can be traced back to 2006 when we were part of Changjiu Industrial. In 2020, 2021, 2022 and the six months ended June 30, 2023, RMB0.4 million, RMB0.5 million, RMB0.4 million and RMB0.2 million, respectively, or 0.1%, 0.1%, 0.1% and 0.1%, respectively, of our revenue was generated from the pledged vehicle monitoring services provided to Changjiu Group’s automobile dealerships, regardless of the paying party. In April 2022, leveraging our experience in providing pledged vehicle monitoring services to financial institutions and automobile dealerships, national service network and insights in the automobile sales and distribution industry, we began offering automobile dealership operation management services to diversify our services and revenue sources. In order to optimize our services before expanding our offering to the wider market and in light of our strategic business relationship with Changjiu Group, we initially launched our automobile dealership operation management services through Changjiu Group’s automobile dealerships. As of June 30, 2023, we were contracted to manage 74 of Changjiu Group’s automobile dealerships, and derived substantially all of revenue from automobile dealership operation management services from them.

Business Transfer of Pledged Vehicle Monitoring Services from Changjiu Industrial

Prior to our establishment in September 2016, Changjiu Industrial had provided pledged vehicle monitoring services to financial institutions and automobile dealerships since 2006. Since September 2016 when Changjiu Jinfu was established, Changjiu Industrial has been gradually transferring its existing pledged vehicle monitoring service agreements to us and moving the operation team in charge of such services into our Group, and we have begun to enter into new pledged vehicle monitoring service agreements with financial institutions and automobile dealerships upon the expiration of the agreements between them and Changjiu Industrial. As of November 30, 2021, the entire operation team and all related personnel of the pledged vehicle monitoring services had been transferred into our Group from Changjiu Industrial. For more information, see “History, Reorganization and Corporate Structure—Reorganization—Onshore Reorganization—Business transfer of pledged vehicle monitoring services.”

On November 30, 2021, Changjiu Industrial and we entered into a business transfer agreement, pursuant to which Changjiu Industrial agreed to assign to us all of its rights and obligations under its then existing pledged vehicle monitoring service agreements for a total consideration of RMB45.5 million with reference to their contract value as of November 30, 2021. Such consideration had been fully settled as of the Latest Practicable Date. Apart from the service agreements that were transferred to us from Changjiu Industrial, we procured 3,198, 4,433, 5,943 and 3,443 new pledged vehicle monitoring service agreements in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively, from both new customers that had not used, and returning customers that had previously used, the pledged vehicle monitoring services provided by either Changjiu Group or us.

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In December 2021, the year ended December 31, 2022 and the six months ended June 30, 2023, the number of new contracts that we entered into with customers who were not customers of Changjiu Industrial was 519, 5,653 and 3,382, respectively, accounting for 93.3%, 88.2% and 98.2% of the total new contracts that we procured, respectively, with contract value⁽¹⁾ of RMB21.2 million, RMB230.6 million and RMB138.0 million, respectively.

As of the Latest Practicable Date, the rights and obligations of Changjiu Industrial under a certain number of its then existing pledged vehicle monitoring service agreements (the “Unassigned Agreements”) had not been transferred to us. The Unassigned Agreements involved 23 financial institution customers and 534 automobile dealership customers, and had an aggregate contract value⁽¹⁾ of RMB21.8 million as of the Latest Practicable Date. All of the rights and obligations of Changjiu Industrial under the Unassigned Agreements are expected to be transferred to us or the Unassigned Agreements will expire by December 31, 2024, after when we expect to enter into new pledged vehicle monitoring service agreements with the relevant parties to such Unassigned Agreements. Although Changjiu Industrial continued to assume its rights and obligations under the Unassigned Agreements, it has exclusively entrusted us to provide pledged vehicle monitoring services pursuant to an entrustment agreement dated April 26, 2023 between Changjiu Industrial and us.

The entrustment agreement also lays out that (i) Changjiu Industrial will transfer all the pledged vehicle monitoring service fees that it collects under the Unassigned Agreements to us on a monthly basis; (ii) Changjiu Industrial undertakes that it will not enter into new pledged vehicle monitoring service agreements with other financial institutions or automobile dealerships after the effective date of the entrustment agreement; (iii) if any term of the entrustment agreement violates or conflicts with the Listing Rules, we will first try to correct the violation or resolve the conflict through negotiation with Changjiu Industrial and amendment of the entrustment agreement; if negotiation and amendment of the entrustment agreement fail to correct the violation or resolve the conflict, we have the right to cease upholding our contractual obligations under the relevant terms of the entrustment agreement; and (iv) if the Stock Exchange rejects, revokes or changes the waiver granted to the continuing connected transactions under the entrustment agreement, whether or not for reasons arising from the Listing Rules, both parties undertake that we will modify and re-execute the entrustment agreement to ensure both parties’ interests remain unaffected. See “Connected Transactions—Non-exempt Continuing Connected Transactions—(4) Entrustment Agreement” for details. As of the Latest Practicable Date, there were 534 Unassigned Agreements, involving 23 financial institution customers and 534 automobile dealership customers.

Note:

- (1) Contract value is estimated and calculated by multiplying (i) the average service fee of our pledged vehicle monitoring services of approximately RMB3,400 per month per automobile dealership during the Track Record Period by (ii) the number of new contracts independently procured by us, or the number of Unassigned Agreements, as the case may be, during the relevant period and by (iii) 12 months.

The average service fee of our pledged vehicle monitoring services is calculated by dividing (i) the average revenue that we generated from pledged vehicle monitoring services and lockbox services per month during the Track Record Period by (ii) the average number of automobile dealerships at the beginning and the end of each period during the Track Record Period.

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Considering that (i) Changjiu Industrial also entrusts Changjiu Jinfu to process data relating to the pledged vehicles and its customers, such as their contact information, to facilitate our provision of the entrusted pledged vehicle monitoring services; and (ii) such data collected and stored by Changjiu Jinfu have been used exclusively for our provision of the entrusted pledged vehicle monitoring services under the Unassigned Agreements, our PRC Legal Advisors are of the view that Changjiu Jinfu is an entrusted data processor when processing data for the purpose of providing the entrusted services under the Unassigned Agreements, and the Personal Information Protection Law of the PRC does not require Changjiu Industrial to obtain the customers’ prior consent to Changjiu Jinfu’s entrusted data processing activities for the purpose of providing pledged vehicle monitoring services.

To provide the entrusted pledged vehicle monitoring services, we have adopted and implemented necessary internal policies and technical measures to protect the security of the data collected and stored by Changjiu Jinfu. Changjiu Jinfu has also completed a cybersecurity multi-level protection scheme for the VFS system in accordance with the applicable cybersecurity and data security laws to strengthen its data security capabilities. During the Track Record Period and as of the Latest Practicable Date, we have not received any notice, inquiry or warning from relevant government authorities for violation of data security requirements. Based on the foregoing, our PRC Legal Advisors are of the view that our entrusted data processing activities under the Unassigned Agreements are in compliance with applicable data security law and regulations in all material aspects.

Mutually Beneficial and Complementary Relationship with Changjiu Group

Our Directors are of the view that the business relationship between us and Changjiu Group is mutually beneficial and complementary, and presents a sustainable business model, primarily because (i) before the Reorganization, we were part of Changjiu Industrial and provided pledged vehicle monitoring services to financial institutions and automobile dealerships in such capacity for ten years; (ii) we have a proven track record of being the largest pledged vehicle monitoring service provider in China’s automobile sales and distribution industry based on revenue in 2021 and the number of automobile dealership users as of December 31, 2021, and have accumulated vast experience dealing with automobile dealerships as well as profound industry insight; and (iii) our long-standing relationship and established track record have led to our familiarity with the standards and requirements of Changjiu Group, enabling us to reduce communication costs, build mutual trust and constantly provide high quality services that meet Changjiu Group’s demand and requirements for automobile dealership operation management services, which in turn allows us to reinforce our market position and enhance our competitiveness in the emerging automobile dealership operation management industry.

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As it is commercially beneficial for both Changjiu Group and our Group to maintain a stable business relationship, our Directors consider that our business relationship with Changjiu Group is unlikely to be terminated or materially or adversely changed. Going forward, in light of such mutually beneficial and complementary business relationship, and considering our longstanding cooperation with Changjiu Group, few service providers that are capable of offering automobile dealership operation management services and the amount of time and efforts required to identify and engage a new service provider with comparable experience and ability to provide services to comparable standard and scope, we believe our automobile dealership operation management services distinguish us from our competitors and we will continue to secure future engagements from Changjiu Group, and it would be difficult for Changjiu Group to select and engage a new operation management service provider to replace us.

Our Cooperation with Independent Third Parties

During the Track Record period, we had been proactively sourcing projects and generated the majority of our revenue from Independent Third Parties. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, revenue contribution from Independent Third Parties was RMB428.9 million, RMB468.4 million, RMB466.0 million, RMB224.2 million and RMB259.8 million, respectively, which accounted for 99.6%, 98.0%, 85.1%, 86.7% and 84.0% of our total revenue, respectively. In particular, in our pledged vehicle monitoring services segment, a vast majority of our pledged vehicle monitoring service agreements we procured during each year of the Track Record Period were with Independent Third Parties.

By contrast, we started the automobile dealership management services business segment in April 2022, and procured only one, or 1.4%, of our automobile dealership operation management service agreements from an Independent Third Party that year. To further diversify the customer base of our automobile dealership operation management services, we set up a business development team in 2022 to (i) formulate a standardized business outreach process; (ii) design business development tools, such as assessment models and due diligence questionnaires; and (iii) prepare relevant legal documents. As of the Latest Practicable Date, our business development team under the automobile dealership operation management segment consisted of eight members.

Due to the relatively early stage of our automobile dealership operation management services, it took time to complete preliminary business negotiations and due diligence. As of June 30, 2023, we had commenced our services under one of the five operation management service agreements that we had entered into with automobile dealerships owned by Independent Third Parties. In 2022 and the six months ended June 30, 2023, we recorded gross loss from the operation management services that we provided to such automobile dealership owned by Independent Third Parties, primarily due to certain upfront costs that we incurred before our service provision in preparation for the expansion of this business segment, such as staff costs for preliminary dealership evaluation and due diligence. For more information, please see “Financial Information—Description of Certain Consolidated Statements of Profit or Loss Items—Gross Profit and Gross Profit Margin.” Nevertheless, our experience dealing

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with automobile dealerships from our provision of pledged vehicle monitoring services and our understanding of the automobile sales and distribution industry in China yield us a comparative advantage over our competitors, such as startup software companies and internet platform companies which may lack the in-depth understanding of the automobile sales and distribution industry. As of September 30, 2023, we had entered into five automobile dealership operation management service agreements and 144 non-legally binding letters of intent for our automobile dealership operation management services with automobile dealerships owned by Independent Third Parties.

Given that we have been optimizing our automobile dealership operation management services since we launched it in April 2022, we intend to conduct marketing activities prudently to maximize cost-efficiency. As such, we plan to gradually diversify the customer base of our automobile dealership operation management services without engaging excessive manpower through (i) targeted business development via our dedicated personnel; and (ii) broader marketing efforts to enhance our customer reach. Our business development department primarily targets automobile dealerships that seek to improve their business operations and financial performance. It has formulated ten standard service procedures for business development, including discovery of potential customers, customer visits and negotiation of letters of intent, data collection and profit forecasting, evaluations of potential customers, negotiation and signing of official service agreements, as well as due diligence and budgeting, to ensure effective customer acquisition, and is establishing an annual business development plan to compete with other market participants, including the number of new potential automobile dealerships that we target to visit and convert to our customers in each month. We will also enhance customer reach and incentivize business inquiries through broader marketing efforts. We plan to enrich the description of our services on various online channels to lay out our (i) industry experience; (ii) service offering; (iii) the technologies, such as our information system and hardwares, that support our services; (iv) the value we could create for our customers; and (v) our competitive advantages as compared to other market participants.

Considering (i) that the members in our business development department have an average of over ten years of industry experience and in depth understanding of the managerial services that we are capable of providing; and (ii) the comprehensiveness of our services and track record of our performance, our Directors are of the view that setting up a business development department and enriching descriptions of our services online are effective means for diversifying our customer base at this stage. Our Directors will also keep monitoring the effectiveness of our marketing approach and adjust it as needed in response to market development and customer feedback. Through the aforesaid marketing plan, we anticipate that more automobile dealerships will procure our services, and we will continually strive to materialize the letters of intent that we entered with automobile dealerships.

BUSINESS

SALES AND MARKETING

The sales and marketing team at our headquarter is responsible for (i) developing our overall marketing strategies and objectives; (ii) conducting market research and organizing our sales and marketing events; (iii) maintaining customer relationships with financial institutions and third-party automobile dealerships; and (iv) communicating with other companies in the automobile sales and distribution industry and taking initiative to participate in industry events to learn from the advanced marketing strategy in the industry.

We implement our sales and marketing strategies primarily through the staff designated by our subcontractors that provide onsite supervision services, who also assist us with local ground marketing. These staff are expected to explore and seize business opportunities within their respective localities for business development and market research purposes by way of (i) establishing contact with automobile dealerships that may need our services; (ii) promoting our services; (iii) communicating with our regional headquarters regarding any potential business opportunity; and (iv) assisting the signing of service agreements.

We actively strive to form new and maintain existing business relationships with potential customers. From time to time we also organized events, such as press conferences, to promote or showcase our products and service offerings.

CUSTOMERS

We have a large and growing customer base primarily consisting of financial institutions, which mainly include commercial banks and automobile finance companies, and automobile dealerships. For our pledged vehicle monitoring services, we typically enter into tripartite agreements with financial institutions and automobile dealerships. Although our pledged vehicle monitoring services are designed to help financial institutions manage secured financing provided to automobile dealerships, we consider the paying party under such tripartite agreements as our customer, which may be either financial institutions or automobile dealerships, depending on the negotiation among the contracting parties, and we consider both financial institutions and automobile dealerships as our users. See “—Pledged Vehicle Monitoring Services—Key Terms of Pledged Vehicle Monitoring Service Agreements” for more details.

Our customers also include Changjiu Industrial. Since September 2016 when Changjiu Jinfu was established, Changjiu Industrial has been gradually transferring its existing pledged vehicle monitoring service agreements to us and moving the operation team in charge of such services into our Group, and we have begun to enter into new pledged vehicle monitoring service agreements with financial institutions and automobile dealerships upon the expiration of the agreements between them and Changjiu Industrial. On November 30, 2021, Changjiu Industrial and we entered into a business transfer agreement, pursuant to which Changjiu Industrial agreed to assign to us all of its rights and obligations under its then existing pledged vehicle monitoring service agreements for a total consideration of RMB45.5 million. For more information, see “History, Reorganization and Corporate Structure—Reorganization—Onshore

BUSINESS

Reorganization—Business transfer of pledged vehicle monitoring services.” As of the Latest Practicable Date, Changjiu Industrial had entrusted us to provide pledged vehicle monitoring services under its then existing pledged vehicle monitoring service agreements that had not been transferred to us. See “Connected Transactions—Non-exempt Continuing Connected Transactions—(4) Entrustment Agreement.”

Except as disclosed in “History, Reorganization and Corporate Structure” and “Connected Transactions,” Changjiu Group did not refer any other customer to us.

The following table sets forth the types of our major customers for each of our two business lines.

Business line	Major customers
Pledged vehicle monitoring services	Financial institutions, which mainly include commercial banks and automobile finance companies, automobile dealerships and Changjiu Industrial
Automobile dealership operation management services	Automobile dealerships

During the Track Record Period, our major customers did not include general automobile trading stores.

During the Track Record Period, revenue from sales to our five largest customers in that year/period amounted to RMB143.6 million in 2020, RMB167.9 million in 2021, RMB279.3 million in 2022 and RMB173.9 million in the six months ended June 30, 2023, which accounted for 33.3%, 35.1%, 51.0% and 56.2% of our total revenue, respectively. During the Track Record Period, revenue derived from sales to our single largest customer in that year/period amounted to RMB38.8 million in 2020, RMB62.2 million in 2021, RMB89.8 million in 2022 and RMB56.5 million in the six months ended June 30, 2023, which accounted for 9.0%, 13.0%, 16.4% and 18.3% of our total revenue, respectively. In 2022 and the six months ended June 30, 2023, revenue derived from Changjiu Industrial, our related party and second largest customer for those periods, amounted to RMB81.1 million and RMB49.5 million, respectively, accounting for 14.8% and 16.0% of our total revenue, respectively. We accept payments through bank transfers.

BUSINESS

Since we are the largest service provider in the pledged vehicle monitoring service market in China, we typically established relationship and subsequently became acquainted with our five largest customers who valued our national service coverage and extensive industry experience in each of the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023. The following tables set out certain details of our five largest customers during the Track Record Period.

Six months ended June 30, 2023

Ranking	Customer	Customer type	Major services provided by us	Year of commencement of business relationship	Transaction amount	Percentage of our total revenue	Relationship with us
					<i>RMB'000</i>	<i>%</i>	
1	Customer A ⁽³⁾	Commercial bank	Pledged vehicle monitoring services	2012	56,483	18.3	Independent Third Party
2	Changjiu Industrial	Automobile sales and distribution service provider	Pledged vehicle monitoring services and automobile dealership operation management services	2016	49,522	16.0	Related Party
3	Customer B ⁽⁵⁾	Commercial bank	Pledged vehicle monitoring services	2006	34,228	11.1	Independent Third Party
4	Customer C ⁽⁶⁾	Commercial bank	Pledged vehicle monitoring services	2015	18,696	6.0	Independent Third Party
5	Customer G ⁽¹⁰⁾	Commercial bank	Pledged vehicle monitoring services	2018	14,977	4.8	Independent Third Party
					<u>173,906</u>	<u>56.2</u>	

BUSINESS

2022

Ranking	Customer ⁽¹⁾	Customer type	Major services provided by us	Year of commencement of business relationship ⁽²⁾	Transaction amount <i>RMB'000</i>	Percentage of our total revenue <i>%</i>	Relationship with us
1	Customer A ⁽³⁾	Commercial bank	Pledged vehicle monitoring services	2012	89,801	16.4	Independent Third Party
2	Changjiu Industrial	Automobile sales and distribution service provider	Pledged vehicle monitoring services and automobile dealership operation management services	2016	81,147 ⁽⁴⁾	14.8	Related party
3	Customer B ⁽⁵⁾	Commercial bank	Pledged vehicle monitoring services	2006	61,483	11.2	Independent Third Party
4	Customer C ⁽⁶⁾	Commercial bank	Pledged vehicle monitoring services	2015	26,852	4.9	Independent Third Party
5	Customer D ⁽⁷⁾	Automobile dealership and automobile finance company	Pledged vehicle monitoring services	2014	20,057	3.7	Independent Third Party
					279,340	51.0	

BUSINESS

2021

<u>Ranking</u>	<u>Customer⁽¹⁾</u>	<u>Customer type</u>	<u>Major services provided by us</u>	<u>Year of commencement of business relationship⁽²⁾</u>	<u>Transaction amount</u>	<u>Percentage of our total revenue</u>	<u>Relationship with us</u>
					<i>RMB'000</i>	<i>%</i>	
1	Customer A ⁽³⁾	Commercial bank	Pledged vehicle monitoring services	2012	62,195	13.0	Independent Third Party
2	Customer B ⁽⁵⁾	Commercial bank	Pledged vehicle monitoring services	2006	39,467	8.3	Independent Third Party
3	Customer D ⁽⁷⁾	Automobile dealership and automobile finance company	Pledged vehicle monitoring services	2014	27,851	5.8	Independent Third Party
4	Customer E ⁽⁸⁾	Automobile dealership, automobile finance company and automobile manufacturer	Pledged vehicle monitoring services	2016	27,300	5.7	Independent Third Party
5	Customer C ⁽⁶⁾	Commercial bank	Pledged vehicle monitoring services	2015	11,125	2.3	Independent Third Party
					<u>167,938</u>	<u>35.1</u>	

BUSINESS

2020

Ranking	Customer ⁽¹⁾	Customer type	Major services provided by us	Year of commencement of business relationship ⁽²⁾	Transaction amount	Percentage of our total revenue	Relationship with us
					<i>RMB'000</i>	<i>%</i>	
1	Customer D ⁽⁷⁾	Automobile dealership and automobile finance company	Pledged vehicle monitoring services	2014	38,767	9.0	Independent Third Party
2	Customer B ⁽⁵⁾	Commercial bank	Pledged vehicle monitoring services	2006	37,656	8.7	Independent Third Party
3	Customer A ⁽³⁾	Commercial bank	Pledged vehicle monitoring services	2012	37,043	8.6	Independent Third Party
4	Customer E ⁽⁸⁾	Automobile dealership, automobile finance company and automobile manufacturer	Pledged vehicle monitoring services	2016	22,616	5.3	Independent Third Party
5	Customer F ⁽⁹⁾	Automobile dealership	Pledged vehicle monitoring services	2014	7,486	1.7	Independent Third Party
					<u>143,568</u>	<u>33.3</u>	

Notes:

- (1) The transaction amounts of each of our top five customers and its branches or subsidiaries are combined on a group basis.
- (2) Certain customers commenced their business relationship with us prior to 2016 when we were part of Changjiu Industrial.
- (3) Customer A is a commercial bank established in 1987 with a strong position in the banking industry in mainland China and business operations in major cities across the world, such as Hong Kong, New York, Los Angeles, Singapore and London. Customer A’s services primarily include retail banking, corporate banking, private banking, wealth management, savings and personal loans. As of September 22, 2023, Customer A’s size of operation measured by market capitalization was approximately RMB334.8 billion.
- (4) The transaction amount was composed of (i) fees for our pledged vehicle monitoring services under the entrustment arrangements between Changjiu Industrial and us; and (ii) fees for our automobile dealership operation management services.

BUSINESS

- (5) Customer B is a Chinese joint-stock commercial bank headquartered in Shenzhen and established in 1987 with primary operations in mainland China and a representative branch in Hong Kong. Customer B’s services primarily include retail banking and corporate banking. As of September 22, 2023, Customer B’s size of operation measured by market capitalization was approximately RMB218.1 billion.
- (6) Customer C is a Chinese commercial bank based in Fuzhou, Fujian Province established in 1988. Customer C’s services primarily include retail banking, corporate banking and institutional banking. As of September 22, 2023, Customer C’s size of operation measured by market capitalization was approximately RMB340.1 billion.
- (7) Customer D is a Chinese state-owned automobile manufacturer established in 1955 headquartered in Shanghai and the controlling shareholder of certain automobile dealerships and automobile finance companies to which we provided pledged vehicle monitoring services. Customer D is currently the largest state-owned automobile manufacturer in China, and produces and sells both traditional vehicles and NEVs under its own brand as well as joint ventures with foreign brands. The transaction amount of such automobile dealerships and automobile finance companies under common control have been combined. As of September 22, 2023, Customer D’s size of operation measured by market capitalization was approximately RMB176.0 billion.
- (8) Customer E is a holding company established in 1984 and the controlling shareholder of certain automobile dealerships, automobile finance companies and automobile manufacturers to which we provided pledged vehicle monitoring services. The transaction amount of such automobile dealerships, automobile finance companies and automobile manufacturers under common control have been combined.
- (9) Customer F is an automobile dealership established in 1999 headquartered in Liaoning. Customer F primarily sells luxury vehicles, used vehicle and auto parts, and provides vehicle maintenance and financial leasing services. As of September 22, 2023, Customer F’s size of operation measured by market capitalization was approximately RMB16.8 billion.
- (10) Customer G is a commercial bank headquartered in Beijing and established in 1992. Customer G’s services primarily include personal banking, corporate banking and institutional banking. As of September 22, 2023, Customer G’s size of operation measured by market capitalization was approximately RMB210.0 billion.

As of the Latest Practicable Date, none of our Directors, their close associates or any Shareholders who, to the knowledge of our Directors, owned more than 5.0% of our issued share capital had any interest in any of our five largest customers during the Track Record Period (other than Changjiu Industrial).

SUPPLIERS

During the Track Record Period, we (i) outsourced certain services, primarily including pledged vehicle monitoring services, collective vehicle conformity certificate management services and counting services, to subcontractors; and (ii) procured from third-party manufacturers of our RFID labels, patented PDAs and OBD devices for our pledged vehicle monitoring services, and patented electronic lockboxes for our lockbox services.

BUSINESS

The following table sets forth the types of our major suppliers for our two business lines.

Business line	Major suppliers
Pledged vehicle monitoring services	Subcontractors who provide onsite supervision services (including pledged vehicle monitoring services, collective vehicle conformity certificate management services and counting services) and manufacturers of RFID labels, PDAs, OBD devices and lockboxes
Automobile dealership operation management services	N/A ⁽¹⁾

Note:

(1) We generally provide automobile dealership operation management services through our own employees.

During the Track Record Period, purchases from our five largest suppliers in that year/period amounted to RMB255.3 million in 2020, RMB286.6 million in 2021, RMB302.3 million in 2022 and RMB157.2 million in the six months ended June 30, 2023, which accounted for 97.6%, 97.0%, 93.6% and 89.4% of our total cost of sales, respectively. During the Track Record Period, purchases from our largest supplier in that year/period amounted to RMB223.3 million in 2020, RMB211.4 million in 2021, RMB119.1 million in 2022 and RMB154.0 million in the six months ended June 30, 2023, which accounted for 85.4%, 71.6%, 36.9% and 87.5% of our total cost of sales, respectively.

Except as disclosed in “History, Reorganization and Corporate Structure” and “Connected Transactions,” Changjiu Group did not refer any other supplier to us.

BUSINESS

The following tables set out details of our five largest suppliers during the Track Record Period.

Six months ended June 30, 2023

Ranking	Supplier	Major services/products provided to us	Year of commencement of business relationship	Transaction amount	Percentage of our total cost of sales	Relationship with us
				<i>RMB'000</i>	<i>%</i>	
1	Supplier A	Outsourcing service	2022	154,019	87.5	Independent Third Party
2	Supplier D	Electronic tag	2020	1,051	0.6	Independent Third Party
3	Supplier H ⁽⁹⁾	Outsourcing service	2021	987	0.6	Independent Third Party
4	Supplier I ⁽¹⁰⁾⁽¹²⁾	Online ticket booking service	2023	631	0.4	Independent Third Party
5	Supplier J ⁽¹¹⁾⁽¹²⁾	Online ticket booking service	2023	490	0.3	Independent Third Party
				<u>157,178</u>	<u>89.4</u>	

2022

Ranking	Supplier	Major services/products provided to us	Year of commencement of business relationship	Transaction amount	Percentage of our total cost of sales	Relationship with us
				<i>RMB'000</i>	<i>%</i>	
1	Supplier A ⁽¹⁾	Outsourcing service	2022	119,113	36.9	Independent Third Party
2	Supplier B ⁽²⁾	Outsourcing service	2016	112,489	34.8	Independent Third Party
3	Supplier C ⁽³⁾	Outsourcing service	2017	56,046	17.4	Independent Third Party
4	Xunruida Technology (Beijing) Co., Ltd. ⁽⁴⁾	Technology service	2020	11,761	3.6	Related party
5	Supplier D ⁽⁵⁾	Electronic tag	2020	2,918	0.9	Independent Third Party
				<u>302,327</u>	<u>93.6</u>	

BUSINESS

2021

<u>Ranking</u>	<u>Supplier</u>	<u>Major services/products provided</u>	<u>Year of commencement of business relationship</u>	<u>Transaction amount</u>	<u>Percentage of our total cost of sales</u>	<u>Relationship with us</u>
				<i>RMB'000</i>	<i>%</i>	
1	Supplier B ⁽²⁾	Outsourcing service	2016	211,427	71.6	Independent Third Party
2	Supplier C ⁽³⁾	Outsourcing service	2017	69,241	23.4	Independent Third Party
3	Supplier D ⁽⁵⁾	Electronic tag	2020	2,783	0.9	Independent Third Party
4	Supplier E ⁽⁶⁾	Outsourcing service	2019	2,219	0.8	Independent Third Party
5	Supplier F ⁽⁷⁾	OBD device	2020	902	0.3	Independent Third Party
				<u>286,572</u>	<u>97.0</u>	

2020

<u>Ranking</u>	<u>Supplier</u>	<u>Major services/products provided</u>	<u>Year of commencement of business relationship</u>	<u>Transaction amount</u>	<u>Percentage of our total cost of sales</u>	<u>Relationship with us</u>
				<i>RMB'000</i>	<i>%</i>	
1	Supplier B ⁽²⁾	Outsourcing service	2016	223,310	85.4	Independent Third Party
2	Supplier C ⁽³⁾	Outsourcing service	2017	21,691	8.3	Independent Third Party
3	Supplier E ⁽⁶⁾	Outsourcing service	2019	5,339	2.0	Independent Third Party
4	Supplier D ⁽⁵⁾	Electronic tag	2020	2,549	1.0	Independent Third Party
5	Supplier G ⁽⁸⁾	Outsourcing service	2019	2,373	0.9	Independent Third Party
				<u>255,262</u>	<u>97.6</u>	

BUSINESS

Notes:

- (1) Supplier A is a human resource company established in 2020 and headquartered in Guangzhou. Its services primarily include catering management, project management and public relations, human resources, labor services (such as labor outsourcing) and business management consulting.
- (2) Supplier B is a management consulting company established in 2011 and headquartered in Beijing. Its services primarily include human resources and labor services (such as labor outsourcing).
- (3) Supplier C is an information technology company established in 2010 and headquartered in Beijing. Its services primarily include flexible employment, production outsourcing, management consulting and personal agency.
- (4) Xunruida Technology (Beijing) Co., Ltd. is a wholly-owned subsidiary of Changjiu Industrial, which was our second largest customer in 2022.
- (5) Supplier D is a technology company established in 2012 and headquartered in Ningbo. It is a leading provider of RFID products and solutions.
- (6) Supplier E is a human resource consulting company established in 2008 and headquartered in Beijing. Its services primarily include human resources services (such as labor outsourcing) and information consultation.
- (7) Supplier F is a R&D-oriented electronics company established in 2019 and headquartered in Shenzhen. It focuses on providing high-precision positioning products that utilize the BeiDou Navigation Satellite System and other applications.
- (8) Supplier G is a technical consulting company established in 2003 and headquartered in Beijing. Its services primarily include technical consulting, training, import and export of goods and sale of computers, softwares and electronic products.
- (9) Supplier H is a human resource company established in 2021 and headquartered in Hunan. Its primarily provides Internet services and professional human resource services to corporations.
- (10) Supplier I is a travel agency established in 2015 and headquartered in Shanghai. It primarily provides domestic, inbound and outbound touring services and airline ticketing services.
- (11) Supplier J is a travel technology company established in 2015 and headquartered in Beijing. It primarily provides one-stop enterprise business travel solutions, intelligent administrative office solutions and digital employee benefit solutions.
- (12) We launched a new expense control system in 2023 to collectively manage our employees’ booking of air tickets through centralized procurement, and engaged Supplier I and Supplier J as our primary travel service providers.

During the Track Record Period, our largest suppliers were typically a primary subcontractor that we engaged to provide human resource support, which we believe expedited the communication of our business needs and facilitated our evaluation and management of subcontractors. In 2020 and 2021, Supplier B, a management consulting company based in Beijing, was our largest supplier and primary subcontractor, and we engaged it mainly for onsite human resource support relating to our pledged vehicle monitoring services. Our transaction amount with Supplier B in 2020 and 2021 was RMB223.3 million and RMB211.4 million, respectively, accounting for 85.4% and 71.6% of our total cost of sales, respectively.

BUSINESS

Nevertheless, we by no means relied on, and it is unlikely that we would be materially and adversely affected by the change of, our largest suppliers or primary subcontractors, considering that (i) we select suitable subcontractors pursuant to our internal procurement standards and procedures; typically there are multiple subcontractors that we could choose from, and we engaged different primary subcontractors during the Track Record Period; and (ii) the staff designated by our subcontractors primarily provide basic onsite tasks, which are highly and readily substitutable. For instance, absent any dispute with Supplier B, we began replacing it with Supplier A, a human resource company in Guangzhou, as our primary subcontractor in the second half of 2022, mainly because our Directors are of the view that Supplier A had (i) a wider range of value-added service offering, such as having a more digitalized system that could connect to our VFS system, allowing us to better monitor the onsite staff it designates; (ii) higher service satisfaction score; and (iii) competitive pricing as compared to Supplier B. As a result, our transaction amount with Supplier B decreased from RMB211.4 million in 2021 to RMB112.5 million in 2022, which accounted for only 34.8% of our total cost of sales, whereas our transaction amount with Supplier A increased from RMB119.1 million, which accounted for 36.9% of our total cost of sales in 2022, to RMB154.0 million, which accounted for 87.5% of our total cost of sales in the six months ended June 30, 2023.

During the Track Record Period, we did not experience any material delay, supply shortages or disruptions in our operations relating our suppliers, or any material product claims attributable to our suppliers. As of the Latest Practicable Date, save for Xunruida Technology (Beijing) Co., Ltd., none of our Directors, their close associates or any Shareholders who, to the knowledge of our Directors, owned more than 5.0% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period. We typically enter into two-year agreements with our suppliers and renew them after negotiations. Payments to suppliers are typically settled within 30 days after our receipt of suppliers’ invoices via bank transfers.

SUBCONTRACTING

In our pledged vehicle monitoring business, we engage outside subcontractors to perform certain onsite tasks, primarily including pledged vehicle monitoring services, collective vehicle conformity certificate management services and counting services. The staff designated by the subcontractors act on our instructions to perform discrete tasks according to the service standards set forth in the relevant subcontracting agreements, and report to our regional managers as needed when they identify potential risk events of automobile dealerships. We regularly monitor and evaluate the performance of our subcontractors, and are solely responsible vis-à-vis our users. We believe such subcontracting arrangements allow us to provide onsite supervision services across China with relatively high cost-efficiency, leverage the human resources of the subcontractors and enhance our profitability. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, subcontracting costs amounted to RMB252.8 million, RMB285.5 million, RMB290.2 million, RMB143.9 million and RMB155.4 million, respectively, which accounted for 96.6%, 96.6%, 89.9%, 94.4% and 88.3% of our total cost of sales, respectively.

BUSINESS

As of the Latest Practicable Date, none of our Directors, their close associates or any Shareholders which, to the knowledge of our Directors, owned more than 5.0% of our share capital had any interest in any of our five largest subcontractors during the Track Record Period.

Selection and Management of Subcontractors

We typically select qualified subcontractors that meet our service standards through open tendering. Besides the service quality and standards that we explicitly set forth in our subcontracting agreements, we also regularly monitor and evaluate the performance of our subcontractors and may require the subcontractors to take necessary rectification measures when their services do not meet the agreed standards. For more information, see “—Quality Control—Quality Control over Subcontractors.”

Key Terms of Our Subcontracting Agreements

Subcontracting agreements between subcontractors and us typically include the following key terms:

- *Term.* Subcontracting agreements typically have a term of two years and may be renewed upon mutual consent.
- *Our responsibilities.* We are typically responsible for providing the personnel designated by the subcontractor with necessary materials, guidance and access permissions. We are also responsible for supervising and providing feedback on the work performed by the personnel designated by the subcontractor.
- *Obligations of the subcontractor.* The subcontractors are typically responsible for (i) counting pledged vehicles and their vehicle conformity certificates and car keys; (ii) keeping records of the pledged vehicles that we monitor as well as the vehicle conformity certificates and car keys that we manage, and ensuring such records match those on our VFS system; and (iii) releasing vehicle conformity certificates and car keys per financial institutions’ instructions in accordance with the standards prescribed in the relevant subcontracting agreements and in compliance with all applicable laws and regulations. In the event of sub-standard performance, the subcontractors are required to take necessary rectification measures, failing which we have the right to claim damages and penalties, or terminate the agreement. The subcontractors are required to manage their personnel providing the contracted services. The agreements also specify that there is no employment relationship between us and the personnel of the subcontractor.
- *Risk allocation.* The subcontractors are typically required to pay all social insurance and housing provident funds contributions for their personnel in accordance with PRC laws and regulations and bear the liabilities and responsibilities for any non-compliance.

BUSINESS

- *Subcontracting fee.* Subcontracting fees are typically payable by us in or by the middle of every month, including labor costs, tax expenses and other miscellaneous costs incurred by the subcontractor. The subcontractors may also charge a late fee for overdue subcontracting fees, which is typically 0.5% of the overdue amount.
- *Confidentiality.* The subcontractors are not allowed to disclose the content of the agreement to third parties or use the agreement for the promotion of their businesses.
- *Termination.* The subcontracting agreements typically terminate upon the earlier of the expiration date of the employment agreements of all subcontractors’ personnels who provide the subcontracted services or the expiration date of the subcontracting agreements. We may terminate the subcontracting agreements if the subcontractors fail to perform to the agreed standards and fail to rectify upon notices. The subcontractors may terminate the agreements if the subcontracting fees payable by us remain unsettled for one month.

QUALITY CONTROL

We believe quality control is crucial to our long-term success. We have a professional quality control team which primarily focuses on maintaining service standards, standardizing service procedures and supervising service quality throughout our operational processes.

Quality Control over Our Services

To ensure that we can provide our services in an effective and consistent manner, we have established various procedures and systems to monitor and maintain the quality of our services across our businesses. For instance, we codified our personnel’s conducts in dealing with automobile dealerships of different scales in our “Administrative Measures for Digital Risk Control Business Agreements 《智能風控業務協議管理辦法》” and “Managerial Measures for Dealership Classification 《經銷商分級管理辦法》”. We expect all employees to carefully study and understand the requirements of the manual to ensure that our daily operations not only meet the relevant requirements on the manual but exceed customer expectations. In addition, we maintain regular and close supervision of our service quality. For our pledged vehicle monitoring services, we have quality control personnel at the dealership-, regional- and headquarter-levels. Automobile dealerships are sampled and inspected by our quality control personnel periodically. We also conduct monthly evaluation of our services. For our automobile dealership operation management services, we primarily carry out periodic quality check on the services that we provide to each automobile dealerships.

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Quality Control over Subcontractors

We typically include in the subcontracting agreements the quality and standards for the services to be provided by subcontractors. We regularly monitor and evaluate the performance of our subcontractors and may require the subcontractors to take necessary rectification measures when their services do not meet the agreed standards. Our employees in the pledged vehicle monitoring service department will input rules regarding the frequency and methods to monitor the pledged vehicles into our VFS system, which will then automatically generate and send tasks and instructions via our VFS system to the onsite staff designated by our subcontractors. Our VFS system will record relevant data to confirm whether the onsite staff has completed the tasks. If a task is not completed within the prescribed timeframe, our VFS system will send an alert to our employees in the pledged vehicle monitoring service department, who will then follow up on the overdue task and reach out to the regional manager for further assistance if needed.

We also conduct annual surveys among commercial banks, retail banks and dealerships regarding the quality of services provided by our subcontractors. We have the contractual right to decide whether to continue our subcontracting agreement depending on the outcomes of such surveys.

Quality Control over Third-Party Vendors

We typically conduct assessment on our vendors in respect of transaction volume, service quality and after-sales services during the agreement term. We also have the right to replace a third-party vendor in the event of substandard performance.

Enhanced Hygiene and Precautionary Measures Against the COVID-19 Pandemic

In response to the COVID-19 pandemic, we adopted enhanced hygiene and precautionary measures between January 2020 and December 2022. The additional costs for implementing these enhanced measures primarily represent increased costs for purchasing protective materials such as face masks, ethanol hand wash, disinfectants, and infrared thermometers. See “—Effect of the COVID-19 Pandemic.”

Feedback and Complaint Management

During the ordinary course of our business, we receive feedback, suggestions and complaints via our customer service hotline and email from banks and third-party automobile dealerships from time to time regarding our services. We have established internal procedures to record, process and respond to the feedback, suggestions and complaints and conduct follow-up reviews of the results of our responses.

BUSINESS

We keep track of our customers’ feedbacks during our daily business operations on our service quality. Customers may provide us with opinions, suggestions and complaints by calling our service hotline or communicating directly with staff designated by our subcontractors who provided onsite supervision services, and we have established a set of internal policies and procedures to promptly respond to and record customer feedbacks. These internal policies and procedures require our employees to (i) record all the customer feedbacks into our customer service system within one hour of receipt; (ii) obtain customers’ contact information and follow up within the same day regarding their feedback; (iii) record and archive all communications with customers in writing; and (iv) propose preliminary solutions to the customer within one working day if the customer feedback is complaint. After a customer complaint is handled, our headquarters will follow up with our customers regarding our service quality. If our customers express dissatisfaction with the way their complaints are handled, our headquarters will ask our employees to revisit the case until the customers are satisfied.

We strive to earn trust, confidence and loyalty from our customers. During the Track Record Period, we did not experience any customer complaints about our services or products that would have a material adverse impact on our operations or financial results.

RESEARCH AND DEVELOPMENT

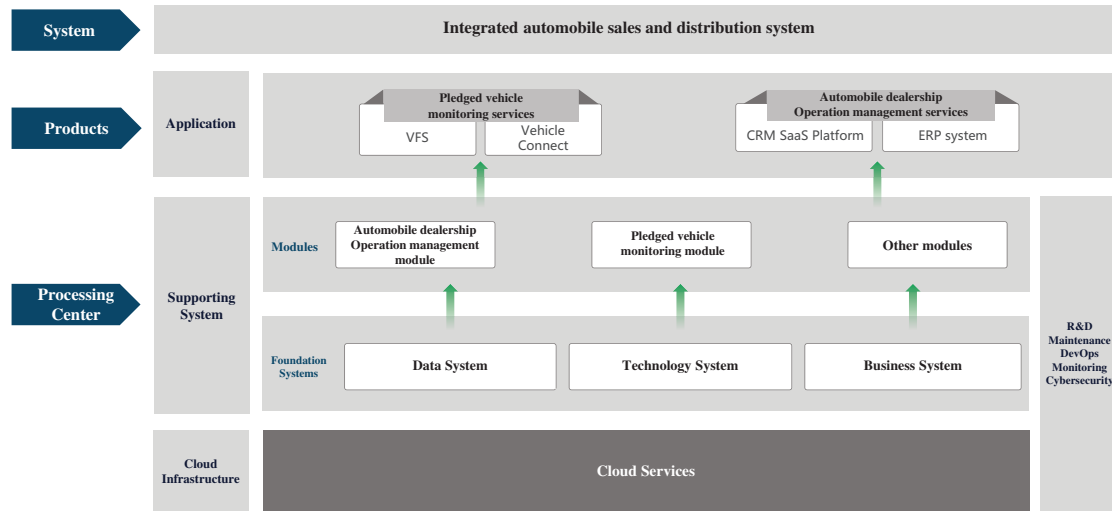
We believe our R&D capabilities is key to our accomplishment and future success. We have established an information technology group to focus on the development, enhancement and maintenance of our software and hardware products and to explore new business opportunities through mobile technology. As of June 30, 2023, our information technology group had a total of 57 R&D personnel. As of the Latest Practicable Date, we had 21 registered copyrights and 11 registered patents in China.

Since our establishment, we were among the first in China in offering pledged vehicle monitoring services, and launched various software and hardware products with our in-house R&D capacity. Our VFS system is a digitalized and internet-based system that stores and analyzes pledged vehicles’ data collected from automobile dealerships via our RFID labels, PDAs and OBD devices. Financial institutions to which we provide pledged vehicle monitoring services have access to such data. Our RFID labels, PDAs and OBD devices can locate and monitor the pledged vehicles more accurately and avoid manual errors. We also use the data collected to better analyze and report the potential risk events of automobile dealerships.

We constantly upgrade our services by building in various features to keep up with both technological advancement and customer demand. To facilitate our provision of automobile dealership operation management services that commenced in 2022 in an integrated framework, we also utilized our Smart Star system, which consists of a CRM SaaS system and an ERP system. In 2020, 2021, 2022 and the six months ended June 30, 2023, our R&D expenses amounted to RMB10.3 million, RMB9.4 million, RMB9.0 million and RMB6.7 million.

BUSINESS

The following diagram illustrates our digital information infrastructure that supports our two business lines and their respective systems:



The building blocks of the digital information infrastructure we developed are the three digital supporting systems, including (i) a data supporting system, which supports our collection and analysis of data from the pledged vehicles that we monitor and the automobile dealerships that we manage; (ii) a technology supporting system, which allows us to monitor the operation and ensure the proper functioning of our systems, such as our VFS system and Smart Star; and (iii) a business supporting system, which helps with the management of commercial and business documents, such as service agreements and receipts. We deploy a “DevOps” development model, an automated and efficient development, testing and maintenance tool, into our supporting systems to increase our R&D efficiency by reducing the reliance on manpower. Based on these three supporting systems, we created different specialized modules, such as the pledged vehicle monitoring module and the automobile dealership operation management module, to facilitate our service provision and internal management. Among these modules, the pledged vehicle monitoring module provides the underlying data processing support for our VFS and Vehicle Connect systems by sorting, processing and summarizing the data collected from the pledged vehicles that we monitor, whereas the automobile dealership operation management module provides the underlying data processing support for our CRM SaaS system and ERP systems by sorting, processing and summarizing the data collected from the automobile dealerships under our management. Our digital information infrastructure leverages cloud computing technologies and uses both public cloud, which we subscribe from third-party cloud service providers, and private cloud, the servers and storage of which are provided by us.

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To solidify our market position, we plan to further increase our investment in R&D, particularly in the underlying technologies and infrastructure related to our user-end system and strengthening our ability to deliver services responsive to our users’ needs. To this end, we will (i) continue to attract and cultivate talents; and (ii) partner with researchers in other institutions and universities in the fields of big data and other technological frontiers, and will continue to invest in R&D to further improve our user engagement, monetization capabilities and operational efficiencies. We are also developing an automobile supply chain service mobile application to further enlarge our user base. Through our R&D capability and industry expertise, we expect our application to match the supply and demand of NEVs. For more details, see “Summary—Recent Development—Trial Operation of Automobile Supply Chain Service Mobile Application.”

INTELLECTUAL PROPERTY

We primarily rely on laws and regulations on trademarks and trade secrets and our employees’ and third parties’ contractual commitments to confidentiality to protect our intellectual property rights. As of the Latest Practicable Date, we had 17 registered trademarks, 21 registered copyrights, 11 registered patents and two registered domain names in China. Among our 21 registered copyrights, the copyright of Smart Star operation management system was transferred to us in April 2023.

During the Track Record Period and as of the Latest Practicable Date, we were not aware of any infringement which could have a material adverse effect on our business operations by our Group against any intellectual property rights of any third party or by any third party against any intellectual property rights of our Group, or any disputes with third parties with respect to intellectual property rights.

AWARDS

The following table sets forth a selection of the notable awards and accreditations we received during the Track Record Period.

Awarding Year	Award/Recognition	Awarding Entity
2021	Deputy Directing Unit	Logistics and Supply Chain Finance Branch of the China Federation of Logistics & Purchasing
2021	Excellent Supplier of 2021	Genius Auto Finance Co., Ltd.
2020	Exemplary Case of Logistics and Supply Chain Finance in China	Logistics and Supply Chain Finance Branch of the China Federation of Logistics & Purchasing
2020	Annual Excellent Service Award	BMW Auto Finance (China) Co., Ltd.

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COMPETITION

According to CIC, the pledged vehicle monitoring services market in China’s automobile sales and distribution industry is highly concentrated, mainly due to the fact that leading market participants have already established barriers in terms of scale, service and technological capabilities. In 2022, top five market participants had a combined market share of approximately 90.3% in terms of revenue.

The current market size of automobile dealership operation management services in China, on the other hand, is relatively small as the market is still in its infancy with a limited number of service providers. Nevertheless, automobile dealership operation management services have vast potential since the automobile dealership industry is becoming increasingly competitive, and a large number of automobile dealerships with certain scale of operation are potential customers of automobile dealership operation management services.

For more information on the industry and the markets that we operate in, see “Industry Overview” and “Risk Factors—Risks Relating to Our Business and Industry—We face significant competition, particularly with respect to our pledged vehicle monitoring services, and if we fail to compete effectively, our business, prospects and results of operations may be materially and adversely affected.”

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Governance

We are fully aware of our responsibilities to promote corporate social responsibility and integrating it into all major aspects of our business operations. We are committed to comply with environmental, social and governance (“ESG”) reporting requirements and we strive to carry out our business in a manner that protects the environment and the health and safety of our employees. We have established an ESG policy, which outlined (i) the principles and framework of our ESG initiative; (ii) ESG training for and periodic assessment of our employees; (iii) internal reporting procedures; and (iv) ESG monitoring and disclosure.

Our ESG policy also sets out the organizational structure and the respective responsibilities of different parties in managing ESG matters. Our Board will be responsible for formulating our ESG strategies, framework and policies. The Board has delegated the implementation of ESG practices to three teams:

- The leadership team composed of our senior management team and led by a general manager will be primarily responsible for (i) creating and updating a framework and indicators for ESG assessment; (ii) reviewing our ESG report; and (iii) determining and supervising steps to be taken to improve our ESG practices.

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- The working team composed of department heads and led by a designated senior manager will be primarily responsible for (i) conducting research on international and domestic ESG policies and standards, which serve as benchmarks and references when our leadership team update our ESG framework and indicators; (ii) preparing our annual ESG report; (iii) diagnosing our ESG practices and putting forward suggestions for improvement to the leadership group; (iv) implement the steps that the leadership group sets to improve our ESG practices; (v) providing guidance to relevant departments regarding ESG practices; and (vi) communicating with rating agencies and assisting stakeholders in responding to ESG issues.
- The internal audit team will be primarily responsible for auditing the implementation of our ESG practices.

Measures to Identify, Assess and Manage ESG-related Risks

We have adopted various strategies and measures to identify, assess and manage ESG-related risks that are material to us, from which we can set ESG targets and strategize our action plan. We have established communication channels with our internal stakeholders in order to take into consideration their opinion to understand ESG-related concerns and how our ESG and climate-related performance would impact different stakeholders. We also engaged external stakeholders, such as suppliers, after examining their qualifications to identify external stakeholders that take ESG responsibilities seriously.

We are aware of potentially severe and chronic physical risks arising from climate change, especially extreme weather, which could have potential impact on our business operations and financial positions. Extreme weather such as earthquakes, floods and storms may cause interruption to our network infrastructure and information technology systems. In addition, the transition to a low-carbon economy involving changes in climate-related regulations and policies may bring us potential transition risks. Tightening environmental regulations may require us to make significant investments so as to operate our business in a more environmentally responsible manner. Any failure to respond to the public’s growing environmental concerns could result in a damaged reputation and loss of customers.

To mitigate the potential risks and impacts from climate change, we have adopted a series of measures. For instance, we have multiple emergency backup plans for our network infrastructure and information technology systems, which are potentially vulnerable to damage or interruption as a result of earthquakes, floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses, hacking or similar events. We also integrate climate change risk identification, adaptation, and mitigation into our corporate decision-making process. To support sustainable development, we have formulated measures, such as launching economical procurement policies, organizing environmental protection public welfare activities and promoting environmental protection awareness among our employees, to reduce our own resource consumption and emissions.

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We are also aware of risks arising from ineffective human resource management, which may lead to difficulty in recruiting and retaining qualified employees, resulting in high recruiting costs and low productivity.

To mitigate the potential risks from ineffective human resource management, we (i) adopt a fair and open recruiting procedure and provide employees with attractive welfare and benefits, including but not limited to public holidays, annual leave, marriage leave, maternity leave, funeral leave, social insurance and housing provident fund, so as to create a harmonious and supportive working environment and further incentivize our employees’ performance; (ii) offer a competitive remuneration package, bonuses and promotion opportunities, which are determined, reviewed and adjusted with reference to employees’ performance and the market situation, to offer employees fair chances to compete and further facilitate their career progression; and (iii) establish internal growth systems and provide customized training programs for employees based on their career paths and help them grow.

Metrics and Targets

We are in the business of providing pledged vehicle monitoring services and automobile dealership operation management services. While we do not produce emissions or consume resources significantly, we believe in the importance of caring for our planet and strive to strike a balance between our role as a for-profit company and our effort to protect the environment of our planet. Although relevant industry standards are not available, we have adopted various metrics to measure the impact of our business on the environment with reference to the environment protection laws and regulations in the PRC. Such metrics primarily include the amount of resource consumed. The following table sets forth our resource consumption indicators in 2021, 2022 and the six months ended June 30, 2023.

	For the years ended December 31,		For the six months ended June 30,
	2021	2022	2023
Resource consumption			
Electricity			
—Total amount (kWh)	75,567	214,426	127,422
—Intensity* (kWh/sq.m.)	67.5	57.6	34.3
Water			
—Total amount (m ³)	2,774	7,603	4,607
—Intensity* (m ³ /sq.m.)	2.5	2.0	1.2

* Calculated as the total amount of resource consumption divided by the gross floor area of our office premises

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Power Usage

We endeavor to proactively conserve energy in response to government’s initiatives. For the year ended December 31, 2022, our electricity consumption level was approximately 214,426 kWh⁽¹⁾. While our power usage will not have any actual or potential impact on our business operations or financial performance, we intend to reduce the level of our power usage over the next three years. We have implemented or will implement the following measures:

- requiring employees to switch off electronic devices and lights when they are not in use;
- evaluating the lighting effect in our office area scientifically, and replacing traditional bulbs with LED lights or other energy-saving lights without affecting our business operations;
- switching off all air conditioners after normal business hours and during non-working days;
- clearing up refrigerators regularly in order to enhance air circulation and increase their efficiency;
- cleaning filters and fan coil units of the air conditioners regularly in order to increase their efficiency; and
- strengthening training relating to energy saving for all employees.

Note:

- (1) We leased property and received property management and general supporting services, including power usage and water usage, from a close associate of our Controlling Shareholders. See “Relationship with Our Controlling Shareholders—Independence from our controlling shareholders—Other connected transactions with Changjiu Group.” The expenses incurred from our power usage and water usage were included in the rent we paid to the lessor and cannot be separately ascertained. Therefore, the consumption levels were calculated based on the proportion of the GFA of our leased property to the GFA of the entire property of the lessor.

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Water Usage

We are dedicated to promote water conservation. For the year ended December 31, 2022, our water consumption level was approximately 7,604 m³(1). While our water usage will not have any actual or potential impact on our business operations or financial performance, we intend to reduce the level of our water usage over the next three years. We have implemented or will implement the following measures:

- putting up water saving reminder labels in toilets to raise the employee’s awareness of saving water;
- requiring employees to close faucets after use; and
- inspecting water tanks and faucets periodically to prevent water leakage and promptly informing the property management company for maintenance if there is a water leakage.

Solid Waste

General office waste is the major non-hazardous waste generated by us and the amount of such non-hazardous waste is insignificant to our business operation. Notwithstanding the minimal non-hazardous waste generated by us, which will not have any actual or potential impact on our business operations or financial performance, we have set long-term targets to reduce waste generation by encouraging waste recycling. We strive to promote green office by adopting numerous measures on reducing waste generation as well as raising employee’s environmental awareness, including but not limited to:

- providing recycling bins at easily accessible points;
- encouraging double-side printing and reusing of wastepaper;
- promoting the idea of paperless workplace; and
- evaluating the demand for office equipment before procurement to avoid overstock.

Note:

- (1) We leased property and received property management and general supporting services, including power usage and water usage, from a close associate of our Controlling Shareholders. See “Relationship with Our Controlling Shareholders—Independence from our controlling shareholders—Other connected transactions with Changjiu Group.” The expenses incurred from our power usage and water usage were included in the rent we paid to the lessor and cannot be separately ascertained. Therefore, the consumption levels were calculated based on the proportion of the GFA of our leased property to the GFA of the entire property of the lessor.

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RFID Labels, PDAs and OBD Devices

The PDAs and OBD devices that we use to facilitate our pledged vehicle monitoring services are typically uninstalled from the pledged vehicles and reused after the pledged vehicles are sold. Our RFID labels are typically removed and disposed of in the trash bin by the automobile dealerships after the pledged vehicles are sold. The RFID labels primarily have three components: (i) the plastic tag; (ii) antennas, which are made of copper; and (iii) microchips, which are made of silicon. Although the used RFID labels are non-hazardous waste, given that they contain copper which cannot be directly disposed of in regular trash bins or recycle bins, we typically instructed and required the onsite staff from our subcontractors to dispose of used RFID labels to trash bins designated for hazardous waste.

Targets

To reduce our consumption of electricity and water, we have designed and implemented energy and water management measures, including (i) putting up environmental protection signs in prominent locations on our office premises; (ii) promoting the reduction of electricity and water consumption among our employees; and (iii) inspecting our office premises to ensure that power on our office premises is turned off after work.

With the expansion of our business, we will endeavor to curb the increase in our resource consumption and aim to keep it relatively stable. By the end of 2024, we plan to adopt a wide range of environment conservation measures to limit our resource consumption, such as (i) installing energy efficient facility for our daily office operation; (ii) cultivating a corporate culture of environmental protection through employee training and office policies; and (iii) setting a target for our total annual amount and intensity of resource consumption at the beginning of each financial year. The relevant resource consumption target will be reviewed on an annual basis to ensure that it remains appropriate to the needs of our Group. In setting such target, we will take into account (i) our respective historical consumption or discharge levels; (ii) our future business expansion; and (iii) the relevant metrics and/or practice of our peers in the automobile sales and distribution industry in a thorough and prudent manner with a view of balancing business growth and environmental protection to achieve sustainable development.

Social Responsibility

Since our inception, we have been dedicated to serving the communities where we operate and have implemented relevant measures to fulfill our social responsibilities. We hire employees based on their merits and it is our corporate policy to offer equal opportunities to our employees regardless of gender, age, race, religion or any other social or personal characteristics. During the Track Record Period and up to the Latest Practicable Date, we had complied with PRC laws in relation to workplace safety in all material respects and had not had any incidents which have materially and adversely affected our operations. In addition, we truly appreciate the services of our employees, and care about their wellbeing. To that end, we offer employee benefits such as free meals, shuttle buses, medical examinations, birthday benefits and holiday benefits.

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We also have an effective supply chain management as we have established detailed internal rules governing the selection of suppliers. We select suppliers based on a variety of factors including qualifications, business reputation, quality management capabilities and price. Suppliers should comply with all relevant laws and regulations regarding anti-bribery, anti-corruption and other unethical business practices.

Furthermore, to uphold our business integrity, we have set up a whistleblowing policy. To encourage employees to report unethical behaviors, such as disseminating misleading information, leakage of customers’ private information, discrimination, bribery and corruption, we will keep the identity of the whistleblower confidential. Furthermore, we include anti-corruption clauses in our agreements with external parties. In case of any unethical practices discovered, the engagement will be terminated at once. During the Track Record Period, there was no legal action against us and our employees regarding corruption, and we were not aware of any material non-compliance with the relevant laws and regulations of bribery, extortion, fraud and money laundering. For more details, see “—Risk Management and Internal Control.”

EMPLOYEES

We believe that the expertise, experience and professional development of our employees is critical to our growth. Our human resources department manages, trains and hires employees.

We uphold our corporate culture of “customer-centric, trust-based, open and innovative, and hardworking-driven” (客戶為先, 誠信至上, 開放創新, 奮鬥為本) and value fine qualities of being diligent, innovative, reliable, cooperative, dedicated and honest, and hence create senses of identity and belonging among our employees.

The following table sets forth a breakdown of our employees by function as of June 30, 2023.

Function	Number of employees	% of our total employees
Pledged vehicle monitoring	256	57.7
Automobile dealership operation management	61	13.7
Research and development	57	12.8
Human resource	20	4.5
Financial management	19	4.3
Enterprise management	18	4.1
Automobile supply chain service mobile application	7	1.6
Office of the board of directors	4	0.9
Auditing center	2	0.5
Total	444	100.0

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During the Track Record Period, in addition to the employees in our pledged vehicle monitoring department, we outsourced certain tasks to subcontractors and labor dispatch companies. Since 2022, we outsourced such tasks primarily to subcontractors, and used 6,730 and 6,973 staff designated by the subcontractors, respectively, in 2022 and the six months ended June 30, 2023, primarily because (i) our pledged vehicle monitoring services covered more than 10,000 automobile dealerships in over 500 cities across 31 provinces in China; and (ii) we need onsite staff to monitor possible risk events and help provide certain supervision services at these automobile dealerships per financial institutions’ request. Our employees in the pledged vehicle monitoring department and staff from our subcontractors served different roles and functions. The staff from the subcontractors were primarily responsible for performing onsite tasks, including pledged vehicle monitoring, collective vehicle conformity certificate management and counting services.

Our employees in the pledged vehicle monitoring department were primary responsible for (i) formulating and streamlining business processes and assessment mechanisms; (ii) liaising with customers, which includes communicating with financial institutions and understanding as well as catering to their needs; (iii) undertaking new projects; (iv) giving instructions to subcontractors and their staff for onsite monitoring of pledged vehicles and using the data collected to analyze and report potential risk events of automobile dealerships through our VFS system based on pledged vehicles’ data collected from automobile dealerships via our RFID labels, PDAs and OBD devices; and (v) cooperating with the research and development department to improve the pledged vehicle monitoring system, including the VFS system and Vehicle Connect. Typically, each employee in the pledged vehicle monitoring department liaises with multiple financial institutions and manages multiple automobile dealerships.

Our employees in the automobile dealership operation management department were primary responsibility for (i) formulating development plans for automobile dealerships; (ii) reviewing and supervising the implementation of automobile dealerships’ annual business plan; (iii) providing guidance to automobile dealerships to improve their operation and management capabilities; and (iv) assisting automobile dealerships to integrate their internal and external corporate resources. Although our customers have access to Smart Star, our employees provide customers with tailored services to help them fully utilize the functions of our services, which primarily include (i) consultation based on their interpretation of the operational data collected and processed by Smart Star; and (ii) guidance relating to systematic improvement on automobile dealerships’ management capabilities and operational efficiency.

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The following table sets forth a breakdown of our employees by geographic location as of June 30, 2023.

<u>Geographic location</u>	<u>Number of employees</u>	<u>% of our total employees</u>
Beijing	347	78.2
Changchun	17	3.8
Wuhan	17	3.8
Zhengzhou	16	3.6
Xi’an	15	3.4
Chengdu	10	2.3
Others ⁽¹⁾	22	4.9
Total	444	100.0

Note:

(1) Others include 19 other cities such as Shijiazhuang, Nanjing, Lanzhou and Guangzhou.

During the Track Record Period and up to the Latest Practicable Date, our employees did not negotiate their terms of employment through any labor union or by way of collective bargaining agreements, and we did not experience any material labor disputes or shortages that may have a material adverse effect on our business, financial position and results of operations.

We endeavor to hire talents by offering competitive wages and benefits and internal upward mobility. We conduct monthly and quarterly performance appraisals and annual evaluations of our employees. Those who meet or exceed their performance expectation will be rewarded discretionary bonuses. We also provide systematic and extensive training programs to our employees to improve and enhance their technical and service skills, as well as to supplement their knowledge of industry quality standards and work place safety standards.

INSURANCE

During the Track Record Period and up to the Latest Practicable Date, we did not purchase any business insurance, which, as advised by CIC, was not an uncommon practice in the industry in China. Our lack of commercial insurance coverage may not adequately protect us against certain operating risks and other hazards, such as claims that arise from our tripartite pledged vehicle monitoring service agreements, which may result in adverse effects on our business. For more details, see “Risk Factors—Risks Relating to Our Business and Industry—Our insurance may not sufficiently cover, or may not cover at all, the losses and liabilities we may encounter.”

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CERTIFICATES, LICENSES AND PERMITS

As advised by our PRC Legal Advisors, during the Track Record Period and as of the Latest Practicable Date, we had obtained all necessary licenses, including our business license, and we did not need any other certificate or permit, from relevant authorities for our operations in the PRC. We are required to renew such licenses from time to time. We do not expect any difficulties in obtaining such renewals as long as we meet the applicable requirements and conditions set by relevant laws and regulations.

PROPERTIES

As of the Latest Practicable Date, we did not own any property, and save for three properties for company registration purposes, we leased a property in Beijing (the “Beijing Office”) with an aggregated GFA of approximately 3,720 sq.m. and a property in Shenzhen with a GFA of 25 sq.m. for use primarily as offices.

As of the Latest Practicable Date, we had not filed the lease agreement for the Beijing Office with the local housing administration authorities as required under PRC law, primarily because the landlord was unable to provide title certificate of the Beijing Office, which was beyond our control. We were advised by our PRC Legal Advisors that such non-filing of lease agreement would not affect the validity of such lease, but we might be ordered to rectify this non-compliance by competent authorities and if we do not rectify within a prescribed period, a penalty of RMB1,000 to RMB10,000 may be imposed on us as a result of such non-filing. See “Risk Factors—Risks Relating to Our Business and Industry—Our lease agreement was not registered with the relevant government authorities, which may expose us to potential fines.” As of the Latest Practicable Date, (i) our Directors confirm that we had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to file the lease agreement described above; and (ii) the landlord had undertaken that it would indemnify and hold us harmless against any losses arising from (a) administrative penalties imposed, or demolition of the leased property, by relevant government authorities; and (b) claims from other obligees due to the landlord’s failure to provide relevant title certificate of the leased property. As such, our Directors are of the view that such non-filing would not have a material impact on our business operations. Also, considering that it is not difficult to find properties in Beijing with similar GFA and levels of monthly rent available for leasing that could be used for our office premises, and we are able to relocate to a different site at relatively low costs if necessary, our Directors do not expect any practical difficulty in identifying alternative premises subject to the lease agreement that has not been filed.

We had no single property with a carrying amount of 15% or more of our total assets as of June 30, 2023 and, therefore, we did not need to prepare a valuation report with respect to our property interests in reliance upon the exemption provided by section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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RISK MANAGEMENT AND INTERNAL CONTROL

We have implemented various risk management policies and measures to identify, assess and manage risks arising from our operations. Details on the types of risk identified by our management, internal and external reporting mechanism, remedial measures and contingency management have been codified in our policies. For details of the major risks identified by our management, see “Risk Factors—Risks Relating to Our Business and Industry.” In addition, we face various financial risks, including credit and liquidity risks that arise during our ordinary course of business. See “Financial Information—Quantitative and Qualitative Disclosure about Financial Risk.”

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will adopt the following risk management and internal control measures:

- the establishment of an audit committee responsible for overseeing our financial records, internal control procedures and risk management systems. See “Directors and Senior Management—Board Committees—Audit committee” for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee;
- the appointment of Ms. Zhang Yexi and Ms. Tang King Yin as our joint company secretaries to ensure the compliance of our operation with relevant laws and regulations. For their biographical details, see “Directors and Senior Management;”
- the appointment of Zhongtai International Capital Limited as our compliance advisor upon the [REDACTED] to advise us on compliance with the Listing Rules; and
- the engagement of external legal advisors to advise us on compliance with the Listing Rules and to ensure our compliance with relevant regulatory requirements and applicable laws, where necessary.

We embed a culture of compliance in the daily work routine of our employees through regular compliance trainings, and set various expectations on our employees’ work performance in terms of compliance.

Finally, we have adopted various internal regulations against corrupt and fraudulent activities, which include measures against bribes and kickbacks, and misuse of company assets. Major measures and procedures to implement such regulations include:

- authorizing our audit department to assume responsibility for daily execution of our anti-fraud, anti-bribery and anti-corruption measures, including supervising corrupt and fraudulent activities, handling workplace complaints, conducting internal investigations, compiling enforcement reports and proposing disciplinary actions;

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- providing anti-fraud and anti-corruption compliance trainings and special trainings to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations; and
- establishing and enhancing relevant internal control measures to reduce the occurrence of fraud, bribery and corruption, such as adopting approval procedures for the disbursement of company funds.

Our Directors are of the view that such controls and measures would be effective to avoid the occurrence of corruption, bribery, or other improper conduct of our employees. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any government investigation or litigation with respect to claims or allegations of monetary and non-monetary bribery activities.

EFFECT OF THE COVID-19 PANDEMIC

According to CIC, the passenger automobile market in China in general had been adversely affected in the short term as the COVID-19 pandemic shrank production material supplies, slowed down automobile production, curbed onsite sales, adversely affected consumers’ willingness and purchase power, and resulted in the government’s order to delay resumption of service and mass production and the related quarantine measures. In 2020, the total number of new passenger automobiles sold in China was 20.8 million, representing a decrease of 6.3% as compared to 2019, according to CIC. The number of pledged vehicles that we monitored also decreased in 2021 due to a decrease in the demand for new vehicles and a slowdown in automobile transactions at automobile dealerships as a result of the COVID-19 pandemic.

Nevertheless, according to CIC, China’s passenger automobile market has gradually recovered since 2021 in line with the recovery of the national economy. In particular, according to CIC, the sales volume of new passenger automobiles increased by 8.8% to 24.0 million in 2022 as compared to 2021.

Despite the outbreak of COVID-19, we achieved growth during the Track Record Period. The number of automobile dealerships to which we provided pledged vehicle monitoring services increased by 28.5% from 8,316 as of December 31, 2020 to 10,684 as of December 31, 2022, and our revenue increased from RMB430.6 million in 2020 to RMB547.9 million in 2022, representing a CAGR of 12.8% between 2020 and 2022. The outbreak of COVID-19 did not have a material adverse impact on our pledged vehicle monitoring services, primarily because (i) while the amount of secured financing that financial institutions provided to automobile dealerships remained relatively stable during the Track Record Period, according to CIC, financial institutions were increasingly vigilant and more inclined to use our monitoring services to prevent the pledged vehicles from damage or loss in light of the uncertainties with respect to the macro-economy and the slight downturn of the passenger automobile market; and (ii) the restrictive government measures, such as lockdown, quarantine and the requirement to present individual health code, reduced the flow of people and the risks of pledged vehicles being damaged, stolen or moved without financial institutions’ authorization. The outbreak of COVID-19 did not have a material adverse impact on our

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automobile dealership operation management services either, primarily because we launched our services in April 2022, and at that time, (i) local governments and communities had developed systematic and targeted pandemic control measures with relatively minor interruptions of economic activities; and (ii) the operation of automobile dealerships had basically returned to normal.

To comply with government regulations and measures to combat the COVID-19 pandemic, we adopted various enhanced hygiene and precautionary measures across our office premises between January 2020 and December 2022, such as (i) checking the health status of our employees and timely reporting potential issues to the relevant authorities; (ii) encouraging our employees to abide by government and community COVID-19 prevention policies and maintain social distance; (iii) reducing business trips; and (iv) purchasing protective materials, such as face masks and COVID-19 testing kits. The costs associated with such measures were insignificant and did not have any material impact on our business, financial position or results of operations during the Track Record Period.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We may be involved in legal proceedings or disputes in the ordinary course of business from time to time. As of the Latest Practicable Date, there were no litigation or arbitration proceedings or administrative proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our business, financial position or results of operation.

2022 Changchun Lawsuit

On November 11, 2022, a commercial bank initiated a civil lawsuit against an automobile dealership and Changjiu Industrial, alleging that (i) the automobile dealership failed to repay the principal and pay the interests of the secured financing provided by the commercial bank, and sold certain pledged vehicles without the commercial bank’s authorization; and (ii) Changjiu Industrial failed to fulfill its contractual obligations to monitor the pledged vehicles under the tripartite pledged vehicle monitoring service agreement (the “Agreement in Dispute”) among the commercial bank, the automobile dealership and Changjiu Industrial, resulting in the automobile dealership’s unauthorized sale of pledged vehicles and the total value of the pledged vehicles dropping below the amount of the secured financing. Since we entered into the Entrustment Agreement with Changjiu Industrial, we undertook its rights and assumed its obligations under its existing pledged vehicle monitoring service agreements, including the Agreement in Dispute. On June 30, 2023, the People’s Court of the Changchun Automobile Economic and Technological Development Zone held that Changjiu Industrial was not jointly and severally liable for the automobile dealership’s failure to repay the principal and pay the interests of the secured financing, considering Changjiu Industrial had fulfilled all of its contractual obligations under, and did not breach, the Agreement in Dispute given that it had notified the commercial bank of the automobile dealership’s unauthorized sales of pledged vehicles through daily alerts multiple times. As such, we would not bear any responsibility for damage payment under the Entrustment Agreement either.

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2023 Changchun Lawsuit

On May 19, 2023, another commercial bank initiated a separate civil lawsuit against us, alleging that we failed to fulfill our contractual obligations to monitor the pledged vehicles under a tripartite pledged vehicle monitoring service agreement, resulting in the automobile dealership’s unauthorized sale of pledged vehicles and the total value of the pledged vehicles dropping below the amount of the secured financing. On August 18, 2023, the Changchun Chaoyang District People’s Court ruled against the commercial bank. On September 7, 2023, the commercial bank appealed to the Changchun Intermediate People’s Court, which was still hearing the case and had not yet entered into a judgment as of the Latest Practicable Date.

Pursuant to the monitoring plan mutually agreed by the commercial bank and us, we had alerted the commercial bank of the risk events that we identified in a timely manner. As confirmed by Jiangsu Shanhe Law Firm, our litigation lawyer in this case, (i) considering that we had fulfilled all contractual obligations under, and did not breach, the monitoring plan mutually agreed by the commercial bank and us, the likelihood of an adverse judgment against us, and that we would be held liable for damages, is remote; and (ii) even in the unlikely scenario that an adverse judgment is entered into against us, the amount of actual damages will be insignificant and far lower than the amount of maximum potential liability, which was estimated to be RMB7.7 million. As such, our Directors are of the view that this lawsuit would not have any material adverse impact on our business, financial position or results of operation.

Historical Non-Compliance Incidents

As advised by our PRC Legal Advisors, we had not been subject to significant fines or administrative penalties involving non-compliances with any PRC laws or regulations relating to our business which would have a material adverse effect on our business during the Track Record Period and up to the Latest Practicable Date. The summary below sets out incident of historical non-compliance with applicable regulations during the Track Record Period. Our Directors believe that below non-compliance incident will not have any material operational or financial impact on us.

Labor Dispatch

Pursuant to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) (the “Interim Provisions on Labor Dispatch”) which has become effective since March 1, 2014, an employer shall strictly control the number of dispatched workers engaged, which shall not exceed 10% of the total number of its workers (the “Limit”). The total number of workers refers to the sum of (i) the number of employees who have entered into employment agreements with the employer; and (ii) the number of dispatched workers engaged by such employer.

In the event a company violates the Interim Provisions on Labor Dispatch, the relevant labor department would order the company to rectify such violation. If the company fails to rectify within a prescribed period, it would be imposed a fine of RMB5,000 to RMB10,000 for each dispatched worker over the Limit. In addition, the company would not be permitted to engage additional dispatched workers until the number of its existing dispatched workers has been reduced below the Limit.

BUSINESS

We assessed that the number of dispatched workers engaged by one of our subsidiaries exceeded the Limit by 6,161, 6,302 and 28, respectively, as of December 31, 2020, 2021 and 2022, primarily due to insufficient understanding of the relevant PRC labor laws and regulation. Since the discovery of our use of dispatched workers over the Limit in February 2022, we have proactively taken rectification measures to reduce our use of dispatched workers. In particular, we have entered into agreements with certain subcontractors instead of using dispatched workers. We set forth below the major differences between labor dispatch and subcontracting arrangements:

	<u>Labor Dispatch</u>	<u>Subcontracting</u>
Type of agreement	Labor dispatch service agreement	Subcontracting agreement
Task assignment	We directly assign tasks to and instruct the dispatched workers	We assign tasks and give high-level instructions to subcontractors, which then assign specific tasks and give separate instructions to their staff
Supervision	We directly supervise the dispatched labor by taking daily attendance, conducting performance assessment and binding dispatched workers by our internal rules and policies	The subcontractors supervise their staff, and we evaluate the subcontractors
Service fees	Primarily depend on the number of dispatched workers	Primarily depend on the type, scope and quality of the tasks we outsource
Wage payment	We pay service fees to the labor dispatching companies, which pay wages to the dispatched workers	We pay services fees to our subcontractors, which pay wages to their staff
Labor law obligations	We owe labor law obligations to our dispatched workers	We do not owe labor law obligations to the staff from our subcontractors
Vicarious liability	We bear vicarious liability for our dispatched workers’ fault because they carry out work in our name	Depends on the duty allocation set forth in the relevant subcontracting agreements

BUSINESS

Our human resource department is also responsible for monitoring the number and proportion of dispatched workers that we use to ensure compliance with the relevant laws and regulations. As of June 30, 2023 and the Latest Practicable Date, we had reduced the number of dispatched workers to three, respectively, which was well below the Limit.

As advised by our PRC Legal Advisors, considering that (i) we had obtained a certificate from the relevant government authority which confirms that we had not been subject to any administrative penalty for violation of PRC labor laws and regulations; (ii) the relevant government authority confirmed that it would not impose on us any administrative penalty for our historical engagement of dispatched workers that exceeded the Limit; and (iii) we have taken rectification measures to reduce the number of dispatched workers to below the Limit, our PRC Legal Advisors are of the view that the risk that we would be subject to any administrative penalty as a result of our historical use of dispatched labor is remote. Based on the above, our Directors are of the view that the noncompliance discussed above would not have a material adverse impact on our business, financial performance or results of operations.

Social Insurance and Housing Provident Funds

During the Track Record Period, one of our PRC subsidiaries did not fully contribute to social insurance and housing provident funds for its employees, primarily due to insufficient understanding of the relevant PRC laws and regulations. We have made provisions for the relevant shortfall in the amounts of RMB0.5 million and RMB0.8 million to our consolidated statements of profit or loss in respect of such potential liabilities for the years ended December 31, 2020 and 2021, respectively. We have started to make full contributions to social insurance and housing provident funds based on actual salaries of our employees since July 2021.

As advised by our PRC Legal Advisors, according to the relevant PRC laws and regulations, if we fail to make contributions to social insurance funds on time and in full, the relevant government authority can require us to rectify the shortfall in our contributions within a prescribed period, and we may be liable for a late payment fee equal to 0.05% of the shortfall in our contributions for each day of delay. If we fail to make the payments within the prescribed period, we may be liable for a penalty of one to three times the amount of the shortfall in our contributions. If we fail to make contributions to housing provident funds in full when due, the relevant government authority can require us to rectify the shortfall in our contributions within a prescribed period, and where the payment has not been made within the prescribed period, the relevant government authority can apply to a court for compulsory enforcement.

BUSINESS

Considering that (i) we have made provisions for the shortfall in our contribution to social insurance and housing provident funds; (ii) our Directors confirmed that we will rectify our underpayment to the social insurance and housing provident funds within a prescribed period if we receive a notice from the relevant government authorities; (iii) we have obtained confirmations from the relevant local government authorities, which, as confirmed by our PRC Legal Advisors, have the authority and are competent to provide such confirmations, stating that no administrative penalties had been imposed on us with respect to social insurance and housing provident funds during the Track Record Period and up to the date of the confirmation; and (iv) we have been making full contributions to social insurance and housing provident funds based on actual salaries of our employees since July 2021, our PRC Legal Advisors are of the view that the risk that the relevant government authorities would impose on us administrative penalties for our historical underpayment to the social insurance and housing provident funds is remote if we rectify our historical underpayment within a prescribed period upon our receipt of notice from the relevant local government authorities.