You should read the following discussion and analysis in conjunction with our consolidated financial statements and the accompanying notes included in the Accountants' Report in Appendix I to this document. Our consolidated financial statements have been prepared in accordance with IFRSs.

The following discussion and analysis contain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Forward-looking Statements" and "Risk Factors."

Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

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.

During the Track Record Period, we primarily generated revenue from pledged vehicle monitoring services, which accounted for 100.0%, 100.0%, 92.2%, 95.0% and 90.2% of our revenue for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, respectively. We offer pledged vehicle monitoring services primarily to (i) financial institutions, mainly including commercial banks and automobile finance companies, that provide secured financing to automobile dealerships for their purchase of vehicles; and (ii) automobile dealerships with pledged vehicles.

In April 2022, we started to provide operation management services to automobile dealerships by offering automobile dealership operational support, data system and managerial solutions. For the year ended December 31, 2022, 7.8% of our revenue was generated from automobile dealership operation management services. For the six months ended June 30, 2022 and 2023, 5.0% and 9.8% of our revenue was generated from automobile dealership operation management services.

For the years ended December 31, 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 profit for the year was RMB114.1 million, RMB83.7 million and RMB95.9 million, respectively. Our revenue amounted to RMB258.7 million and RMB309.4 million for the six months ended June 30, 2022 and 2023, respectively. Our profit for the period amounted to RMB48.1 million and RMB35.3 million for the six months ended June 30, 2022 and 2023, respectively.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with IFRSs and interpretations issued by IASB applicable to companies reporting under IFRSs. Please see Note 1 to the Accountants' Report in Appendix I to this document for more information on the basis of preparation of our financial information included herein.

The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 3 to the Accountants' Report in Appendix I to this document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by general factors affecting the automobile sales and distribution industry and the broader passenger automobile market in China, which include China's overall economic growth and level of per capita disposable income; the penetration of NEVs in China particularly in lower-tier cities; the increase in the car parc of passenger automobiles; and governmental policies and initiatives affecting automobile sales in China.

Unfavorable changes in any of these factors could negatively affect demand for our services and materially and adversely affect our results of operations.

Our results of operations are also affected by certain company-specific factors, including the following:

Our Ability to Grow Our User Base

During the Track Record Period, substantially all of our revenue was generated from pledged vehicle monitoring services. Our business depends to a significant extent on our ability to grow our user base for pledged vehicle monitoring services, which is primarily comprised of (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.

We strive to continuously grow our user base for pledged vehicle monitoring services, which is a key component of our operations. We have established a nationwide service network to support our high-quality and responsive services. Leveraging our extensive marketing and 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 and solutions to enhance user satisfaction. The number of active users, their level of engagement and satisfaction affect our revenue from our pledged vehicle monitoring services.

Our Ability to Capitalize on Emerging Opportunities

Over the years through our frequent interactions with automobile dealerships, we have accumulated an in-depth understanding of their limitations, which primarily include competition, working capital pressure, lack of professional management personnel and lack of digital capabilities. According to CIC, automobile dealerships in China's automobile sales and distribution industry face increasingly intense competition and have strong demand for better management and higher profitability, resulting in an unmet need for professional operation and management solutions.

We started to provide operation management services to automobile dealerships in April 2022 and expect to expand our operations for this business line. For the year ended December 31, 2022 and the six months ended June 30, 2022 and 2023, 7.8%, 5.0% and 9.8%, respectively, of our revenue was generated from automobile dealership operation management services. Our ability to successfully expand our automobile dealership operation management services will affect our results of operations.

In addition, we intend to capitalize on the growth potential of China's NEV market. According to CIC, the growth rate of NEVs sales volume is gradually surpassing the growth of gasoline-powered new automobiles in China. Demand for NEVs in China in recent years has been fast-growing, leading to a corresponding rise in the demand for NEVs' sales network, delivery capacity and after-sales services. To capture the envisioned growth trends in NEVs in China, particularly in the lower-tier cities, we are developing an automobile supply chain service mobile application which will connect NEV manufacturers with automobile dealerships to facilitate the sales, delivery and other supply chain services of NEVs in our mobile application. Our automobile supply chain service mobile application commenced trial operation in April 2023. See "Business—Our Strategies" for details. Our ability to execute these strategies will affect our results.

Our Ability to Manage Costs and Expenses

Our results of operations depend on our ability to manage costs and expenses. Our cost of sales during the Track Record Period consisted primarily of subcontracting costs, which represented the services fees we paid in connection with the outsourcing of onsite supervision services for our pledged vehicle monitoring services. For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, our subcontracting costs recorded in cost of sales amounted to RMB252.8 million, RMB285.5 million, RMB290.2 million, RMB143.9 million and RMB155.4 million, respectively, representing 96.6%, 96.6%, 89.9%, 94.4% and 88.3% of our cost of sales during the same period. Our ability to efficiently control our subcontracting costs will impact our profitability. For illustration purpose, we set out below a sensitivity analysis of our profit before taxation with reference to the fluctuation of our subcontracting costs during the Track Record Period. The below table demonstrates the impact of a hypothetical increase in our subcontracting costs on our profit before taxation, while all other factors remain unchanged.

	For the year ended December 31,			For the six months ended June 30,	
	2020	2021	2022	2022	2023
			(RMB'000)		
Profit before taxation	109,834	93,149	127,626	62,884	55,472
Assuming 10% increase in our subcontracting costs					
Hypothetical impact on our profit before taxation	(25,278)	(28,546)	(29,024)	(14,389)	(15,537)
Assuming 20% increase in our subcontracting costs					
Hypothetical impact on our profit before taxation	(50,557)	(57,091)	(58,048)	(28,777)	(31,075)

We have implemented technology initiatives and digitalization efforts in the upfront automobile dealerships store to reduce our reliance on manpower to cope with rising subcontracting costs. Our subcontractors were able to supervise multiple automobile dealerships for our pledged vehicle monitoring services during the Track Record Period and thus realized economies of scale as our business expanded. We expect our cost structure to evolve as our business expands and as we develop and launch new services in the future. In particular, we expect to incur additional costs relating to selling and marketing, and research and development. Going forward, we will continue to endeavor to further improve operating efficiency and enhance our profit margin.

The cost of sales for newly commenced automobile dealership operation management services consisted primarily of staff costs. For the year ended December 31, 2022 and the six months ended June 30, 2022 and 2023, our staff costs recorded in the costs of sales under automobile dealership operation management services amounted to RMB14.0 million, RMB3.3 million and RMB12.7 million, representing 4.3%, 2.1% and 7.2% of our cost of sales during the same period, respectively. The monthly average cost per staff under this business segment during the Track Record Period was approximately RMB26,000, which was primarily due to the higher education and experience requirement of the relevant staff (as their responsibilities involved high level managerial tasks, such as formulating and supervising the implementation of business development plans for automobile dealerships), and were generally comparable to average salaries with similar educational background and years of experience according to CIC. We expect our staff costs for automobile dealership operation management to increase in the future to support business expansion and expect our cost structure to evolve as we continue to develop and expand this new business line.

Our Ability to Price Competitively

Our results of operations are affected by our ability to price our pledged vehicle monitoring services competitively, which is influenced by (i) the location of the automobile dealerships and their pledged vehicles; and (ii) the scope of our services. We primarily use a cost-plus pricing model to price our pledged vehicle monitoring services, which may vary depending on the average local salary and the manpower required. For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, the average annual pledged vehicle monitoring fee per service agreement was approximately RMB39,300, RMB38,900, RMB34,800, RMB38,600 and RMB36,100, respectively. As our business continued to grow, we realized economies of scale and reduced the manpower required for pledged vehicle monitoring services, therefore our average annual pledged vehicle monitoring fee per service agreement became more competitive and decreased from RMB38,900 in 2021 to RMB34,800 in 2022 and from RMB38,600 in the six months ended June 30, 2022 to RMB36,100 in the same period in 2023. Despite the fact that our average annual pledged vehicle monitoring fees per service agreement decreased during such periods, our gross profit margin of pledged vehicle monitoring services increased from 38.2% in 2021 to 41.5% in 2022 and from 40.4% in the six months ended June 30, 2022 to 43.5% in the same period in 2023 as we gradually reduced our reliance on manpower and realized economies of scale.

We face competition from other market participants that provide similar services and expect that competition will become more intensive as more market participants commence similar business. See "Industry Overview" and "Business—Competition." We believe our ability to price our services competitively will help expand our business and contribute to our future revenue growth.

Impact of COVID-19 on Our Operations

Our results of operations and financial condition during the Track Record Period were affected by the spread of COVID-19. Especially during the early stage of the COVID-19 outbreak, the automotive industry in China was negatively impacted, as automobile production and the number of purchasers declined due to precautionary government-imposed closures of certain travel and business, the government's order to delay resumption of service and mass production and the related quarantine measures. The containment efforts led by the government also caused delay in the near-term marketing demand of our automaker and dealer customers. Going forward, as countries around the world have gradually lifted the precautionary measures and implemented stimulating policies, the automobile-related industries are expected to recover and continue to grow, according to CIC.

Despite the impact of the COVID-19 outbreak, our revenue increased at a CAGR of 12.8% from RMB430.6 million in 2020 to RMB547.9 million in 2022. Our revenue increased by 19.6% from RMB258.7 million in the six months ended June 30, 2022 to RMB309.4 million in the same period 2023. As of June 30, 2023, we had cash and cash equivalents of RMB72.4 million. We believe our liquidity is sufficient for us to successfully navigate an extended period of uncertainty.

Business Transfer of Pledged Vehicle Monitoring Services

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 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 (the "Unassigned Agreements") that had not been transferred to us. See "Connected Transactions—Non-exempt Continuing Connected Transactions—(4) Entrustment Agreement." The revenue generated from automobile dealerships under Unassigned Contracts and Entrustment Agreement was RMB3.6 million, RMB37.8 million, RMB20.6 million and RMB19.1 million in 2021 and 2022 and 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.

We recognize revenue from the Unassigned Contracts and the entrustment agreement dated April 26, 2023 between Changjiu Industrial and us (the "Entrustment Agreement") as revenue from the provision of services to related parties. See "—Related Party Transactions."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our Group's consolidated financial information requires management to make significant estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and our best assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations. Our critical accounting policies and estimates are set forth in detail in Note 2 and Note 3 to the Accountants' Report in Appendix I to this document.

Revenue Recognition

We recognize revenue when control over a product or service is transferred to the customer, at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

We provide pledged vehicle monitoring services to customers, primarily including monitoring of the pledged vehicles and management of pledged vehicles' vehicle conformity certificates as well as car keys, to protect the interest of financial institutions that entered into financing credit arrangements with automobile dealerships. We recognize revenue from pledged vehicle monitoring services on a straight-line basis over time as the customers simultaneously receive and consume the benefits throughout the period when services are provided. Additionally, certain of our services, such as vehicles sales invoice check and physical check, pledged vehicle counting, are provided through staff from subcontractors, the revenue of which is recognized at the point in time when the service is rendered.

We provide operation management services to automobile dealerships that seek more optimal business and financial performance, and receives management service fee which is determined based on a percentage of operation income or operation profit generated by automobile dealerships during the services period. The percentage is based on the terms specific in the service contract with automobile dealerships. As a result, the management service fee includes variable consideration. We estimate variable consideration based on our current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. We recognized revenue from operation management services over time as the customers simultaneously receives and consumes the benefits throughout the period during the services are provided.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives are as follows:

– Office equipment	1-5 years
– Electronic equipment	1-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. We review both the useful life of an asset and its residual value annually, if any.

Impairment of Trade Receivables

We apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the aging. The Directors consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the relevant periods.

We review regularly the recoverable amount of trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

Income Tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to and items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous period.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Leases

Right-of-use Assets

We recognize right-of-use asset when a lease is capitalized and is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property, plant and equipment.

Lease liabilities

Where the lease is capitalized, we recognize the lease liability initially at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, we measure the lease liability at amortized cost and calculate interest expense using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS ITEMS

The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)* *(unaudited)*	*(%)*	*(RMB'000)*	*(%)*
Revenue	**430,587**	**100.0**	**477,697**	**100.0**	**547,867**	**100.0**	**258,652**	**100.0**	**309,431**	**100.0**
Cost of sales	(261,629)	(60.8)	(295,401)	(61.8)	(322,828)	(58.9)	(152,404)	(58.9)	(176,028)	(56.9)
Gross profit	**168,958**	**39.2**	**182,296**	**38.2**	**225,039**	**41.1**	**106,248**	**41.1**	**133,403**	**43.1**
Net other income	554	0.1	441	0.1	1,552	0.3	545	0.2	823	0.3
Impairment (losses)/reversal	(770)	(0.1)	110	0.0	(2,555)	(0.5)	(2,011)	(0.8)	(3,650)	(1.2)
Research and development expenses	(10,296)	(2.4)	(9,413)	(2.0)	(9,027)	(1.6)	(4,379)	(1.7)	(6,721)	(2.2)
General and administrative expenses	(42,579)	(9.9)	(71,101)	(14.9)	(76,984)	(14.1)	(33,608)	(13.0)	(63,400)	(20.5)
Sales and marketing expenses	(5,069)	(1.2)	(6,130)	(1.3)	(7,126)	(1.3)	(2,674)	(1.0)	(3,497)	(1.1)
Profit from operations	**110,798**	**25.7**	**96,203**	**20.1**	**130,899**	**23.9**	**64,121**	**24.8**	**56,958**	**18.4**
Net finance expense	(964)	(0.2)	(3,054)	(0.6)	(3,273)	(0.6)	(1,237)	(0.5)	(1,486)	(0.5)
Profit before taxation	**109,834**	**25.5**	**93,149**	**19.5**	**127,626**	**23.3**	**62,884**	**24.3**	**55,472**	**17.9**

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)* *(unaudited)*	*(%)*	*(RMB'000)*	*(%)*
Income tax benefit/(expense)	4,271	1.0	(9,418)	(2.0)	(31,714)	(5.8)	(14,796)	(5.7)	(20,181)	(6.5)
Profit for the year/period	**114,105**	**26.5**	**83,731**	**17.5**	**95,912**	**17.5**	**48,088**	**18.6**	**35,291**	**11.4**
Attributable to:										
Equity shareholders of the Company	114,105	26.5	83,731	17.5	95,877	17.5	48,053	18.6	35,291	11.4
Non-controlling interests	–	–	–	–	35	–	35	–	–	–

Revenue

Revenue by Business Line

During the Track Record Period, we primarily generated revenue from pledged vehicle monitoring services, which accounted for 100.0%, 100.0%, 92.2%, 95.0% and 90.2% of our revenue for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, respectively. In April 2022, we started to provide operation management services to automobile dealerships. For the year ended December 31, 2022 and the six months ended June 30, 2022 and 2023, 7.8%, 5.0% and 9.8% of our revenue was generated from automobile dealership operation management services, respectively. The following table sets forth our revenue by business line for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) *(unaudited)*	(%)	(RMB'000)	(%)
Pledged vehicle monitoring services	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	–	–	–	–	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**

Revenue by User Ownership

We typically enter into tripartite agreements with financial institutions and automobile dealerships for such 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 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 "Business—Pledged Vehicle Monitoring Services—Key Terms of Pledged Vehicle Monitoring Service Agreements" for more details.

During the Track Record Period, our revenue from pledged vehicle monitoring services was primarily derived from Independent-Third-Party users. The following table sets forth our revenue by business line and by user ownership for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) (unaudited)	(%)	(RMB'000)	(%)
Pledged vehicle monitoring services										
– Related-party users	1,729	0.4	5,793	1.2	1,284	0.2	1,024	0.4	157	0.1
– Independent-Third-Party users	428,858	99.6	471,904	98.8	503,765	92.0	244,736	94.6	278,910	90.1
Sub-total	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-party users	–	–	–	–	42,785	7.8	12,892	5.0	30,281	9.8
– Independent-Third-Party user	–	–	–	–	33	0.0	–	–	83	0.0
Sub-total	–	–	–	–	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**

Revenue by Paying Customer

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)* *(unaudited)*	*%*	*(RMB'000)*	*%*
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
Subtotal	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
Subtotal	–	–	–	–	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.

We recognize revenue from the Unassigned Contracts and the Entrustment Agreement as revenue from the provision of services to related parties. See "—Related Party Transactions." The revenue generated from automobile dealerships under the Unassigned Contracts and the entrustment agreement dated April 26, 2023 between Changjiu Industrial and us 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 years, respectively. See "Connected Transactions—Non-exempt Continuing Connected Transactions—(4) Entrustment Agreement" and "Relationship with Our Controlling Shareholders—Independence from Our Controlling Shareholders—Operational Independence—Business of pledged vehicle monitoring services" for further details.

Revenue from Pledged Vehicle Monitoring Services by Major Regions

During the Track Record Period, we provided pledged vehicle monitoring services in, and generated relatively even and stable revenue from, major regions in the PRC. The table below sets forth a breakdown of our revenue from pledged vehicle monitoring services by major regions in the PRC for the periods indicated.

	For the years ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) (unaudited)	(%)	(RMB'000)	(%)
Southern region[(1)]	112,601	26.2	107,693	22.5	119,463	23.7	57,310	23.3	68,718	24.6
Eastern region[(2)]	96,741	22.5	110,186	23.1	118,219	23.4	55,453	22.6	65,534	23.5
Central region[(3)]	100,190	23.3	104,372	21.9	108,637	21.5	54,411	22.1	60,191	21.6
Northern region[(4)]	67,998	15.8	82,248	17.2	78,435	15.5	40,314	16.4	42,127	15.1
Western region[(5)]	53,057	12.3	73,198	15.3	80,295	15.9	38,272	15.6	42,497	15.2
Total	**430,587**	**100.0**	**477,697**	**100.0**	**505,049**	**100.0**	**245,760**	**100.0**	**279,067**	**100.0**

Notes:

(1) Includes Guangdong, Guizhou, Hainan, Sichuan, Chongqing and Guangxi according to our internal business division.

(2) Includes Henan, Jiangsu, Shandong and Shanghai according to our internal business division.

(3) Includes Anhui, Fujian, Hubei, Hunan, Jiangxi and Zhejiang according to our internal business division.

(4) Includes Beijing, Hebei, Heilongjiang, Jilin, Liaoning and Tianjin according to our internal business division.

(5) Includes Gansu, Qinghai, Shanxi, Shaanxi, Yunnan, Inner Mongolia, Ningxia, Tibet and Xinjiang according to our internal business division.

Cost of Sales

Our cost of sales mainly consists of (i) subcontracting costs, representing service fees for third-party service providers for onsite supervision services in connection with our pledged vehicle monitoring services; (ii) staff costs; (iii) consulting service fees, primarily representing technical service fees for testing and implementation of our North Star System for our automobile dealership operation management services provided by our related party to meet the need of our newly commenced automobile dealership operation management service segment, which were one-off and non-recurring in nature; (iv) travel and entertainment expenses; (v) hardware costs, representing procurement costs for RFID labels and scanners; (vi) depreciation and amortization; (vii) share-based payment expenses in connection with the grant of certain share options to certain employees; and (viii) others. Given the nationwide layout of our services, we outsourced certain services, primarily including pledged vehicle monitoring services, collective vehicle conformity certificate management services and counting services, to subcontractors to achieve the nationwide business coverage while maintaining high operational efficiency. The onsite supervision services provided by Independent Third Parties on a daily basis are basic and standard services. See "Business—Subcontracting" and "Business—Quality Control" for more information on our subcontracting arrangement and quality control measures. The following table sets forth a breakdown of our cost of sales by nature for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) *(unaudited)*	(%)	(RMB'000)	(%)
Subcontracting costs	252,783	96.6	285,455	96.6	290,239	89.9	143,886	94.4	155,373	88.3
Staff costs	–	–	–	–	14,017	4.3	3,271	2.1	12,701	7.2
Consulting service fees	–	–	–	–	11,761	3.6	2,509	1.6	382	0.2
Travel and entertainment expenses	–	–	–	–	1,585	0.5	36	0.1	2,397	1.4
Hardware costs	4,075	1.6	3,704	1.3	3,031	0.9	1,556	1.0	1,413	0.8
Depreciation and amortization	2,480	0.9	1,637	0.6	1,035	0.3	532	0.4	554	0.3
Share-based payment expenses	–	–	–	–	–	–	–	–	2,635	1.5
Others(1)	2,291	0.9	4,605	1.5	1,160	0.5	614	0.4	573	0.3
Total	**261,629**	**100.0**	**295,401**	**100.0**	**322,828**	**100.0**	**152,404**	**100.0**	**176,028**	**100.0**

Note:

(1) Mainly included telecommunication expenses and office expenses.

The following table sets forth a breakdown of our cost of sales by business line for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
Pledged vehicle monitoring services										
Subcontracting costs	252,783	96.6	285,455	96.6	290,239	89.9	143,886	94.4	155,373	88.3
Hardware costs	4,075	1.6	3,704	1.3	3,031	0.9	1,556	1.0	1,413	0.8
Depreciation and amortization	2,480	0.9	1,637	0.6	1,035	0.3	532	0.4	460	0.2
Others	2,291	0.9	4,605	1.5	1,054	0.4	614	0.4	357	0.2
Sub-total	261,629	100.0	295,401	100.0	295,359	91.5	146,588	96.2	157,603	89.5
Automobile dealership operation management services										
Staff costs	–	–	–	–	14,017	4.3	3,271	2.1	12,701	7.2
Consulting service fees	–	–	–	–	11,761	3.6	2,509	1.6	382	0.2
Travel and entertainment expenses	–	–	–	–	1,585	0.5	36	0.1	2,397	1.4
Depreciation and amortization	–	–	–	–	–	–	–	–	94	0.1
Share-based payment expenses	–	–	–	–	–	–	–	–	2,635	1.5
Others	–	–	–	–	106	0.1	–	–	216	0.1
Sub-total	–	–	–	–	27,469	8.5	5,816	3.8	18,425	10.5
Total	**261,629**	**100.0**	**295,401**	**100.0**	**322,828**	**100.0**	**152,404**	**100.0**	**176,028**	**100.0**

For pledged vehicle monitoring services, we generally outsource onsite services to subcontractors, while our own employees carry out other related work, primarily consisting of marketing (such as liaising with customers and undertaking new projects), operation management (such as administrative work related to financial institutions and subcontractors) and risk management (such as reporting potential risk events through our IT systems). As such tasks are not directly related to the provision of pledged vehicle monitoring services, the corresponding staff costs were recorded under general and administrative expenses or selling and marketing expenses, rather than cost of sales. For automobile dealership operation management services, we generally utilize our own employees to manage such services.

The following table sets forth the average subcontracting cost per pledged vehicle monitoring service agreement per month for the periods indicated.

	2020	**2021**	**2022**	**Six months ended June 30, 2023**
Subcontracting costs (RMB'000)	252,783	285,455	290,239	155,373
Number of service agreements as of December 31/June 30	10,963	12,271	14,503	15,459
Average subcontracting cost per service agreement per month (RMB'000)	1.92	1.94	1.67	1.68

We incurred all subcontracting costs under our pledged vehicle monitoring service segment. The average subcontracting cost per automobile dealership per month remained stable in 2020 and 2021. The average subcontracting cost decreased from RMB1,940 in 2021 to RMB1,670 in 2022, which was primarily attributable to the economies of scale we had achieved as our business continued to grow. With the support of our technologies, our subcontractors were able to supervise multiple automobile dealerships at the same time. The average subcontracting cost remained relatively stable at RMB1,680 in the six months ended June 30, 2023.

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)* *(unaudited)*	*(%)*	*(RMB'000)*	*(%)*
Pledged vehicle monitoring services	168,958	39.2	182,296	38.2	209,690	41.5	99,172	40.4	121,464	43.5
Automobile dealership operation management services	–	–	–	–	15,349	35.8	7,076	54.9	11,939	39.3
Total gross profit/overall gross profit margin	**168,958**	**39.2**	**182,296**	**38.2**	**225,039**	**41.1**	**106,248**	**41.1**	**133,403**	**43.1**

Our overall gross profit increased during the Track Record Period primarily as a result of business expansion of our pledged vehicle monitoring services. In addition, we started to provide automobile dealership operation management services and generated gross profit under this business line in 2022. Specifically, in 2022 and the six months ended June 30, 2022 and 2023, we recorded under this business line (i) gross profit of RMB17.1 million, RMB7.1 million and RMB15.8 million, respectively, attributable to related parties and (ii) gross loss of RMB1.8 million, nil and RMB3.8 million, respectively, attributable to an Independent Third Party. During the Track Record Period, we recorded gross loss from Independent-Third-Party customers under this business line, primarily because we were at the early stage of business development for our automobile dealership operation management services with limited customer base (only one operation management service agreement with an automobile dealership owned by an Independent Third Party started to generated revenue during the Track Record Period). The increase in gross loss from RMB1.8 million in 2022 to RMB3.8 million in the six months ended June 30, 2023 was primarily because we incurred more staff costs from the additional staff we hired in preparation to serve more Independent-Third-Party customers in the future. In the meantime, to deliver high quality services and prepare for future demand from Independent-Third-Party customers, we need to be equipped with sufficient staffing. Therefore, we had set up a service team of experienced professionals with strong operation management skills and incurred relatively significant staff costs. These experience professionals from the automobile sales and distribution industry are expected to have capabilities in customer communication. Given that the revenue generated by automobile dealership operation management services provided to Changjiu Group is larger than that provided to an Independent-Third-Party, we recorded gross profit for such services provided to Changjiu Group while we recorded gross loss for such services provided to an Independent-Third-Party in 2022 and the six months ended June 30, 2023 due to limited revenue generated with significant staff costs as the team serving Changjiu Group may not have enough capacity to serve Independent-Third-Party customers.

To improve the profitability of our automobile dealership operation management services, we will continue to adhere to our business strategy to grow and diversify our Independent-Third-Party customer base, including, among others: (a) setting up key project advancement teams to focus on high priority customers, (b) establishing project initiation mechanisms to handle prospective clients and review the operational status and requirements of automobile dealerships that have entered into letters of intent with us to formulate preliminary development plans and (c) seeking references through automobile manufacturers for potential dealerships for collaboration. Expanding customer base would enable us to generate more revenue from automobile dealership operation management services without incurring extra costs, especially staff costs, on the same scale due to the service team we set up in the early stage of our business development. In addition, we will focus on improving the operational results of our clients by leveraging our professional service team consisting of experience professionals from the automobile sales and distribution industry to, among others, optimize the dealerships' business plans and provide guidance to dealership staff to enhance their practical management skills, and our automobile dealership operation management system, Smart Star, to provide technical support in the daily operation of automobile dealerships and collect and process operational data for further analysis by our service team. Improved operational results of our clients could lead to performance-based/incentive fee in addition to our management fee and thereby improve profitability. Furthermore, we will aim to streamline our service process through our Smart Star system and thereby reduce the time, and the related staff costs, required for business improvement with respect to a specific client, through, for example, further improving the functions of our Smart Star system and integrate the operational data of automobile dealerships on the system to offer better support to our service team. In particular, 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.

Our gross profit margin was mainly affected by subcontracting costs, which were the major component of our cost of sales during the Track Record Period. We have implemented technology initiatives and digitalization efforts in the upfront automobile dealerships store to reduce our reliance on manpower to cope with rising subcontracting costs.

Our overall gross profit margin remained stable in 2020 and 2021. Our overall gross profit margin increased from 38.2% in 2021 to 41.1% in 2022 and increased from 41.1% for the six months ended June 30, 2022 to 43.1% for the same period in 2023, which was primarily attributable to an increase in gross profit margin of pledged vehicle monitoring services as our business continued to grow, we realized economies of scale with the support of our technologies, which enabled our subcontractors to supervise multiple automobile dealerships at the same time.

Net Other Income

Our net other income primarily consists of (i) government grants, representing subsidies we received from local governments for the purpose of stabilizing employment and promoting vocational and social insurance training activities, which were one-off and non-recurring; (ii) extra deduction of input VAT for our services in accordance with relevant policies; (iii) OBD related compensation, representing indemnification payment we received from customers for losses of OBD devices which were used for pledged vehicle monitoring services; (iv) net exchange gains; and (v) others. The following table sets forth a breakdown of our net other income for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) *(unaudited)*	(%)	(RMB'000)	(%)
Government grants	191	34.5	34	7.7	416	26.8	256	47.0	13	1.6
Extra deduction of input VAT	210	37.9	192	43.5	843	54.3	62	11.4	504	61.2
OBD related compensation	191	34.5	178	40.4	176	11.3	113	20.7	89	10.8
Net exchange gains	–	–	–	–	–	–	–	–	171	20.8
Others	(38)	(6.9)	37	8.4	117	7.6	114	20.9	46	5.6
Total	**554**	**100.0**	**441**	**100.0**	**1,552**	**100.0**	**545**	**100.0**	**823**	**100.0**

Impairment (Losses)/Reversal

Our impairment losses primarily consist of impairment of trade receivables. We recorded impairment losses of RMB0.8 million, RMB2.6 million, RMB2.0 million and RMB3.7 million in 2020 and 2022 and the six months ended June 30, 2022 and 2023, respectively, which was primarily due to allowance for expected credit losses of trade receivables. We recorded reversal of impairment losses of RMB0.1 million in 2021, which was primarily due to the overall improvement of our trade receivables aging as of December 31, 2021.

Research and Development Expenses

Our research and development activities were primarily related to continuous development and upgrade of our VFS system and integrated digital information infrastructure. Our research and development expenses primarily consist of (i) staff costs for our research and development personnel; (ii) third-party R&D and related costs for developing systems and devices and procurement of related tools; and (iii) share-based payment expenses in connection with the grant of certain share options to certain employees. The following table sets forth a breakdown of our research and development expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) (unaudited)	(%)	(RMB'000)	(%)
Staff costs	4,590	44.6	9,191	97.6	8,941	99.0	4,379	100.0	5,989	89.1
Third-party R&D and related costs	5,706	55.4	222	2.4	86	1.0	–	–	233	3.5
Share-based payment expenses	–	–	–	–	–	–	–	–	499	7.4
Total	**10,296**	**100.0**	**9,413**	**100.0**	**9,027**	**100.0**	**4,379**	**100.0**	**6,721**	**100.0**

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) staff costs for our administrative and other staff; (ii) professional service fees, mainly representing service fees for technology services provided by related parties for IT infrastructure improvement to increase management efficiency and general audit and legal consulting services in the ordinary course of business; (iii) depreciation and amortization; (iv) [**REDACTED**] expenses; (v) share-based payment expenses in connection with the grant of certain restricted shares and share options to certain employees; (vi) tax and surcharges; (vii) travel expenses; (viii) office expenses; (ix) non-refundable earnest money for an investment; and (x) others. We were interested in making a potential investment in a target company, an Independent Third Party, for its complementary technologies and automobile-related e-commerce platform, which we believed would create potential business synergy with our businesses. We paid an amount of RMB10.0 million as earnest money to the target company for this potential investment in June 2021 but the investment did not consummate after negotiation and due diligence in the same year. However, the earnest money was not refundable as stipulated in the relevant agreement. Such payment was one-off and non-recurring because it was not associated with the routine operations of our core business, but rather tied to the specific circumstances leading to the occurrence and final non-consummation of a particular investment opportunity. To the knowledge of our Directors, except for (i) the chief executive officer and one of the founders of the target company, who was a former employee of Changjiu Group from May 2010 to December 2014; (ii) the vice president and one of the founders of the target company, who was also a former employee of Changjiu Group from December 2013 to December 2014; (iii) aforementioned potential investment and provision of the loans to one of the subsidiaries of the Target, see "—Prepaid Expenses and Other Current Assets" for details on the loans we lent to a third party, there had no other past or present relationship, transaction or arrangement (family, shareholding, trust, financing, sharing of personnel, premises or other resources, or otherwise) between the target company and its related parties (including of their respective associates) and us or our subsidiaries, Directors, shareholders or senior management, or any of their respective associates, during the Track Record Period and up to the Latest Practicable Date. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
Staff costs	26,904	63.2	37,455	52.7	46,593	60.5	21,947	65.3	28,789	45.4
Professional service fees	513	1.2	6,771	9.5	11,822	15.4	4,250	12.6	3,766	5.9
Depreciation and amortization	2,771	6.5	3,366	4.7	5,551	7.2	2,069	6.1	3,899	6.2
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Share-based payment expenses	–	–	–	–	–	–	–	–	9,912	15.6
Tax and surcharges	3,212	7.5	3,763	5.3	4,244	5.5	1,970	5.9	1,243	2.0
Travel expenses	4,382	10.3	5,328	7.5	3,433	4.5	1,837	5.5	1,467	2.3
Office expenses	2,845	6.7	3,305	4.6	2,569	3.3	1,164	3.5	1,772	2.8
Non-refundable earnest money for an investment	–	–	10,000	14.1	–	–	–	–	–	–
Other[1]	1,952	4.6	1,113	1.6	640	0.8	371	1.1	586	0.9
Total	**42,579**	**100.0**	**71,101**	**100.0**	**76,984**	**100.0**	**33,608**	**100.0**	**63,400**	**100.0**

Note:

(1) Mainly included entertainment expense, conference organization fees and other miscellaneous expenses.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) staff costs for our sales and marketing personnel; (ii) marketing and entertainment expenses we incurred to maintain and expand our service network; (iii) share-based payment expenses in connection with the grant of certain share option to certain employees; and (iv) others. The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2020		2021		2022		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
Staff costs	3,377	66.6	4,160	67.9	4,341	60.9	1,744	65.2	2,322	66.4
Marketing and entertainment expenses	1,388	27.4	1,802	29.4	2,615	36.7	880	32.9	288	8.2
Share-based payment expenses	–	–	–	–	–	–	–	–	608	17.4
Other[1]	304	6.0	168	2.7	170	2.4	50	1.9	279	8.0
Total	**5,069**	**100.0**	**6,130**	**100.0**	**7,126**	**100.0**	**2,674**	**100.0**	**3,497**	**100.0**

Note:

(1) Mainly included office, travel and other miscellaneous expenses.

Net Finance Expenses

Our net finance expenses primarily represent interest expenses on bank loans and lease liabilities, and other financial expenses and income. See "—Indebtedness" for details on bank loans and "—Prepaid Expenses and Other Current Assets" for details on the loans we lent to a third party. The following table sets forth a breakdown of our net finance expenses for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2020	2021	2022	2022	2023
			(RMB'000)		
				(unaudited)	
Interest expense on bank loans	817	2,712	3,174	1,274	1,219
Interest expense on lease liabilities	79	271	298	117	321
Other financial expenses/(income)	68	71	(199)	(154)	(54)
Total	**964**	**3,054**	**3,273**	**1,237**	**1,486**

Income Tax Benefit/(Expenses)

We recorded income tax benefit of RMB4.3 million in 2020. Our income tax expenses amounted to RMB9.4 million, RMB31.7 million, RMB14.8 million and RMB20.2 million in 2021 and 2022 and the six months ended June 30, 2022 and 2023, respectively.

In 2021 and 2022 and the six months ended June 30, 2022 and 2023, our effective income tax rates, calculated as our income tax expenses divided by profit before tax, were 10.1%, 24.8%, 23.5% and 36.4%, respectively. Our effective income tax rate in the six months ended June 30, 2023 was higher than the statutory income tax rate of 25%, primarily as a result of the non-deductible share-based payment expenses connected with the grant of certain restricted shares and share options during this period and the loss incurred by our Cayman company due to [**REDACTED**] expenses, which reduced our Group's overall profit before tax, while the profits from our operating entities that are subject to statutory income tax remained unaffected. The following table sets forth a reconciliation of tax expenses applicable to profit before tax at the statutory rate in the PRC, where our operating entities are domiciled, to the tax expenses at the effective income tax rates, and a reconciliation of the applicable tax rate to the effective income tax rate for the periods indicated.

	For the year ended December 31,			**For the six months ended June 30,**	
	2020	**2021**	**2022**	**2022**	**2023**
			(RMB'000)		
				(unaudited)	
Profit before tax	**109,834**	**93,149**	**127,626**	**62,884**	**55,472**
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	27,459	23,287	31,906	15,721	16,819
Tax effect of:					
Income not subject to tax[(1)]	(30,453)	(13,442)	–	–	–
Non-deductible expenses and loss	239	1,241	1,601	44	717
Super deduction for research and development expenses	(1,516)	(1,668)	(1,793)	(969)	(768)

	For the year ended December 31,			For the six months ended June 30,	
	2020	**2021**	**2022**	**2022**	**2023**
			(RMB'000)		
				(unaudited)	
Non-deductible share-based payments expenses	–	–	–	–	3,413
Actual income tax (benefit)/expense	**(4,271)[(2)]**	**9,418**	**31,714**	**14,796**	**20,181**

Notes:

(1) Refers to income from the pledged vehicle monitoring services provided by Changjiu Industrial during the relevant years. During the Track Record Period prior to the completion of the Reorganization, which is the year ended December 31, 2020 and the eleven months ended November 30, 2021, our pledged vehicle monitoring business segment was operated by both a division of Changjiu Industrial and Changjiu Jinfu. Regarding the portion of income from services operated by the division of Changjiu Industrial, income tax liability was determined with respect to Changjiu Industrial as a whole. During such periods, Changjiu Industrial as a whole was loss-making after tax adjustment and therefore had no income tax charges. Therefore, in our financial statements, the relevant income is recorded in this line item as "not subject to tax."

(2) Even though we recorded a net profit on a consolidated basis in 2020, it was attributable to the profit derived from the pledged vehicle monitoring services provided by the division of Changjiu industrial, the income tax liability on which was determined with respect to Changjiu Industrial as a whole (see note 1 above). Excluding such profit, the remainder of our business provided by Changjiu Jinfu, after tax adjustment, had a net tax loss in that year. Since the net tax loss can be carried forward to be deductible from future taxable profit in the next five years and it is probable that future taxable profit will be available against which the net tax loss can be utilized, the deductible net tax loss is recognized as a benefit to Changjiu Jinfu from tax perspective. A tax benefit and deferred tax assets were recognized in 2020 accordingly. Changjiu Jinfu, at the earlier stage of its business development in 2020, incurred higher costs and operating expenses, therefore experienced a net loss position. The business provided by Changjiu Jinfu turned around the loss position and achieved net profit in 2021.

Taxation

Cayman Islands

Under the current laws of the Cayman Islands, we are not subject to tax on either income or capital gain, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Our Hong Kong subsidiary, incorporated in July 2021, is subject to a profits tax rate of 8.25% for the first HKD2,000,000 of assessable profit and 16.5% for profit exceeding HKD2,000,000. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023.

Mainland China

Our subsidiaries established in the Mainland China are subject to an income tax rate of 25% pursuant to relevant PRC laws and regulations.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Revenue

Our revenue increased by 19.6% from RMB258.7 million for the six months ended June 30, 2022 to RMB309.4 million for the same period in 2023.

Revenue generated from pledged vehicle monitoring services increased by 13.5% from RMB245.8 million for the six months ended June 30, 2022 to RMB279.1 million for the same period in 2023, which was primarily attributable to an increase in the number of our service agreements from 12,746 as of June 30, 2022 to 15,459 as of June 30, 2023 as we continued to expand the scale of our services and provided monitoring services to more automobile dealerships, including NEV brands, by leveraging our technological strength and extensive experience in the industry, and the industry generally recovered from the COVID-19 pandemic in the period. Our average annualized pledged vehicle monitoring fees per service agreement was approximately RMB38,600 and RMB36,100 for the six months ended June 30, 2022 and 2023, respectively, as we realized economies of scale and reduced the manpower required for pledged vehicle monitoring services, which enabled us to provide our services at a more competitive service fee level.

We commenced automobile dealership operation management services in April 2022. Revenue generated from automobile dealership operation management services increased by 135.7% from RMB12.9 million for the six months ended June 30, 2022, which reflected revenue for the three months during which we provided such services, to RMB30.4 million for the same period in 2023, which reflected revenue for the full six months during this period.

Cost of Sales

Our cost of sales increased by 15.5% from RMB152.4 million for the six months ended June 30, 2022 to RMB176.0 million for the same period in 2023, which was primarily due to increases in (i) subcontracting costs for our pledged vehicle monitoring services as a result of our business expansion and (ii) staff costs and share-based payment expenses for our automobile dealership operation management services, as (a) we recorded such costs for the full six months in the first half of 2023 as opposed to only three months in the same period in 2022, given that we started to provide automobile dealership operation management services in April 2022, (b) the number of our staff increased as a result of business expansion and (c) we incurred share-based payment expenses with respect to certain employees associated with the grant of certain share options in this period.

Gross Profit and Gross Profit Margin

Our gross profit increased by 25.6% from RMB106.2 million for the six months ended June 30, 2022 to RMB133.4 million for the same period in 2023, which was primarily attributable to an increase in the gross profit of pledged vehicle monitoring services.

Our gross profit margin increased from 41.1% for the six months ended June 30, 2022 to 43.1% for the same period in 2023, which was primarily attributable to an increase in gross profit margin of pledged vehicle monitoring services. As our business continued to grow, we realized economies of scale with the support of our technologies, which enabled our subcontractors to supervise multiple automobile dealerships at the same time. The gross profit margin for our automobile dealership operation management services was 39.3% for the six months ended June 30, 2023, lower than that of 54.9% for the same period in 2022, primarily as a result of (i) the expansion of our service team for automobile dealership operation management services and the related increase in staff costs and (ii) the share-based payment incurred in the six months ended June 30, 2023 in connection with the grant of certain share options. See "History, Reorganization and Corporate Structure – [**REDACTED**] Share Incentive Plans" for more details of the grant of share options.

Net Other Income

Our net other income increased from RMB0.5 million for the six months ended June 30, 2022 to RMB0.8 million for the same period in 2023, primarily due to an RMB0.4 million increase in extra deduction of input VAT from our subcontracting costs, partially offset by an RMB0.2 million decrease in government grants.

Impairment Reversal/(Losses)

Our impairment losses increased from RMB2.0 million for the six months ended June 30, 2022 to RMB3.7 million for the same period in 2023, which was primarily due to an increase in loss allowance recognized as a result of the increase in trade receivables.

Research and Development Expenses

Our research and development expenses increased by 52.3% from RMB4.4 million for the six months ended June 30, 2022 to RMB6.7 million for the same period in 2023, which was primarily due to an RMB1.6 million increase in our staff costs as a result of an increase in the number our research and development related employees and an RMB0.5 million share-based payment expenses associated with the grant of share options to certain employees in this period.

General and Administrative Expenses

Our general and administrative expenses increased by 88.7% from RMB33.6 million for the six months ended June 30, 2022 to RMB63.4 million for the same period in 2023, which was primarily due to (i) an RMB[**REDACTED**] [**REDACTED**] expenses associated with this [**REDACTED**]; (ii) an increase of RMB6.8 million in staff costs as a result of an increase in the number of our administrative staff due to business expansion; and (iii) an RMB9.9 million share-based payment expenses associated with the grant of certain restricted shares and share options to certain employees in this period.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 29.6% from RMB2.7 million for the six months ended June 30, 2022 to RMB3.5 million for the same period in 2023, which was primarily due to our business expansion, which caused an increase in the number of our selling and marketing staff and related staff costs.

Net Finance Expenses

Our net finance expenses increased by 25.0% from RMB1.2 million for the six months ended June 30, 2022 to RMB1.5 million for the same period in 2023, which was primarily due to an increase in interest expenses on lease liabilities.

Income Tax Expense

Our income tax expense increased by 36.5% from RMB14.8 million for the six months ended June 30, 2022 to RMB20.2 million for the same period in 2023, which was primarily due to an increase in profit generated by Changjiu Jinfu as a result of the business expansion of our pledged vehicle monitoring services.

Profit for the Period

For the foregoing reasons, our profit for the period decreased from RMB48.1 million for the six months ended June 30, 2022 to RMB35.3 million for the same period in 2023.

2022 Compared to 2021

Revenue

Our revenue increased by 14.7% from RMB477.7 million in 2021 to RMB547.9 million in 2022.

Revenue generated from pledged vehicle monitoring services increased by 5.7% from RMB477.7 million in 2021 to RMB505.0 million in 2022, which was primarily attributable to an increase in the number of our service agreements from 12,271 as of December 31, 2021 to 14,503 as of December 31, 2022 as we continued to expand the scale of our services and provided monitoring services to more automobile dealerships, including NEV brands, by leveraging our technological strength and extensive experience in the industry, despite the fact that our average annual pledged vehicle monitoring fees per service agreement decreased from RMB38,900 in 2021 to RMB34,800 in 2022. As our business continued to grow, we realized economies of scale and reduced the manpower required for pledged vehicle monitoring services therefore our average annual pledged vehicle monitoring fee per service agreement became more competitive and decreased from RMB38,900 in 2021 to RMB34,800 in 2022.

We commenced automobile dealership operation management services in 2022. Revenue generated from automobile dealership operation management services increased from nil in 2021 to RMB42.8 million in 2022.

Cost of Sales

Our cost of sales increased by 9.3% from RMB295.4 million in 2021 to RMB322.8 million in 2022, which was primarily due to an increase of RMB27.5 million in cost of sales relating to the newly commenced automobile dealership operation management services. Our cost of sales for pledged vehicle monitoring services remained stable at RMB295.4 million in 2021 and 2022.

Gross Profit and Gross Profit Margin

Our gross profit increased by 23.4% from RMB182.3 million in 2021 to RMB225.0 million in 2022, which was primarily attributable to an increase in the gross profit of pledged vehicle monitoring services.

Our gross profit margin increased from 38.2% in 2021 to 41.1% in 2022, which was primarily attributable to an increase in gross profit margin of pledged vehicle monitoring services as our business continued to grow, we realized economies of scale with the support of our technologies, which enabled our subcontractors to supervise multiple automobile dealerships at the same time.

Net Other Income

We had net other income of RMB0.4 million and RMB1.6 million in 2021 and 2022, respectively. The increase in net other income was primarily attributable to (i) an increase of RMB0.7 million in extra deduction of input VAT as a result of an increase in expenses that were subject to deduction; and (ii) an increase of RMB0.4 million in government grants primarily for vocational and social insurance training activities.

Impairment Reversal/(Losses)

We recorded reversal of impairment losses of RMB0.1 million in 2021, which was primarily due to the overall improvement of our trade receivables aging as of December 31, 2021. We recorded impairment losses of trade receivables of RMB2.6 million in 2022, which was primarily due to an increase in loss allowance recognized as a result of the increase in trade receivables.

Research and Development Expenses

Our research and development expenses remained relatively stable in 2021 and 2022.

General and Administrative Expenses

Our general and administrative expenses increased by 8.3% from RMB71.1 million in 2021 to RMB77.0 million in 2022, which was primarily due to (i) an increase of RMB9.1 million in staff costs as a result of our business expansion; (ii) an increase in professional service fees of RMB5.1 million mainly due to the increase in technology services provided by related parties for IT infrastructure improvement to increase management efficiency; and (iii) [**REDACTED**] expenses of RMB[**REDACTED**] in 2022, which partially offset the effect of non-refundable earnest money of RMB10.0 million in 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 16.2% from RMB6.1 million in 2021 to RMB7.1 million in 2022, which was primarily due to an increase of RMB0.8 million in marketing and entertainment expenses we incurred to maintain and expand our service network.

Net Finance Expenses

Our net finance expenses increased by 6.5% from RMB3.1 million in 2021 to RMB3.3 million in 2022, which was primarily due to an increase in interest expenses on bank loans.

Income Tax Expense

Our income tax expense increased significantly from RMB9.4 million in 2021 to RMB31.7 million in 2022, which was primarily due to the Reorganization in 2021. During the eleven months prior to the completion of the Reorganization on November 30, 2021, our pledged vehicle monitoring business line was operated by both a division of Changjiu Industrial and Changjiu Jinfu. During the same period, Changjiu Industrial incurred losses after tax adjustment, and no income tax charges, and therefore the profit for the pledged vehicle monitoring business operated by Changjiu Industrial was not subject to tax prior to the Reorganization in 2021. Only the remaining profit generated by Changjiu Jinfu was subject to tax based on its statutory tax rate of 25%, which lead to relatively low income tax expense in

2021. After the Reorganization in 2021, the entire pledged vehicle monitoring service business segment was operated by us. All profits generated from pledged vehicle monitoring services in 2022 were subject to tax based on the statutory tax rate of Changjiu Jinfu, therefore there is a significant increase in EIT provision in the same year while our financial performance remained relatively stable during the Track Record Period. Accordingly, our effective income tax rate, calculated as our income tax expenses divided by profit before tax, of 10.1% in 2021 was lower than our effective income tax rate of 24.8% in 2022.

Profit for the Year

For the foregoing reasons, our profit for the year increased by 14.6% from RMB83.7 million in 2021 to RMB95.9 million in 2022.

2021 Compared to 2020

Revenue

Our revenue increased by 10.9% from RMB430.6 million in 2020 to RMB477.7 million in 2021, which was primarily attributable to an increase in revenue generated from pledged vehicle monitoring services.

Revenue generated from pledged vehicle monitoring services increased by 10.9% from RMB430.6 million in 2020 to RMB477.7 million in 2021, which was primarily attributable to an increase in the number of our service agreements from 10,963 as of December 31, 2020 to 12,271 as of December 31, 2021 as we continued to expand the scale of our services and provided monitoring services to more automobile dealerships by leveraging our technological strength and extensive experience in the industry. The average annual pledged vehicle monitoring fees per service agreement remained stable in 2020 and 2021.

Cost of Sales

Our cost of sales increased by 12.9% from RMB261.6 million in 2020 to RMB295.4 million in 2021, which was primarily due to an RMB32.7 million increase in subcontracting costs for supervising the pledged vehicles across regions as a result of our business expansion.

Gross Profit and Gross Profit Margin

Our gross profit increased by 7.9% from RMB169.0 million in 2020 to RMB182.3 million in 2021, which was attributable to an increase in the gross profit of pledged vehicle monitoring services. Our overall gross profit margin remained stable in 2020 and 2021.

Net Other Income

We had net other income of RMB0.6 million and RMB0.4 million in 2020 and 2021, respectively. The slight decrease in net other income was primarily attributable to a decrease of RMB0.2 million in government grants.

Impairment (Losses)/Reversal

We recorded impairment losses of RMB0.8 million in 2020, which was primarily due to allowance for expected credit losses of trade receivables. We recorded reversal of impairment losses of RMB0.1 million in 2021, which was primarily due to the overall improvement of our trade receivables aging as of December 31, 2021.

Research and Development Expenses

Our research and development expenses decreased by 8.6% from RMB10.3 million in 2020 to RMB9.4 million in 2021, primarily due to an RMB5.5 million decrease in third-party R&D costs as we started to develop the business-related features of VFS system and maintain this system in house, which was partially offset by an increase of RMB4.6 million in staff costs for our research and development personnel as a result of an increased number of personnel.

General and Administrative Expenses

Our general and administrative expenses increased by 67.0% from RMB42.6 million in 2020 to RMB71.1 million in 2021, which was primarily due to (i) an RMB10.6 million increase in staff costs as a result of the expansion of our pledged vehicle monitoring services, which led to an increase in the number of staff performing related tasks such as business process formulation and customer communication; (ii) an RMB10.0 million non-refundable earnest money we paid for a potential investment in an automobile-related e-commerce platform in 2021, which did not consummate after negotiation and due diligence in the same year; and (iii) an RMB6.3 million increase in professional service fees mainly due to the increase in audit and legal consulting services. The RMB10.0 million non-refundable earnest money for such investment in 2021 was one-off and non-recurring.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 20.9% from RMB5.1 million in 2020 to RMB6.1 million in 2021, which was primarily due to an RMB0.8 million increase in staff costs for our sales and marketing personnel and an RMB0.4 million increase in marketing and entertainment expenses to maintain and expand our service network, which were generally in line with our business expansion.

Net Finance Expenses

Our net finance expenses increased significantly from RMB1.0 million in 2020 to RMB3.1 million in 2021, which was primarily due to an increase in interest expenses of RMB1.9 million on a bank loan. See "—Indebtedness."

Income Tax Benefit/(Expense)

We recorded income tax benefit of RMB4.3 million in 2020 as a result of recognition of deferred tax assets mainly from deductible accumulative losses in 2020. Even though we recorded a net profit on a consolidated basis in 2020, it was attributable to the profit derived from the pledged vehicle monitoring services provided by the division of Changjiu industrial, the income tax liability on which was determined with respect to Changjiu Industrial as a whole. Excluding such profit, the remainder of our business provided by Changjiu Jinfu, after tax adjustment, had a net tax loss in that year. Since the net tax loss can be carried forward to be deductible from future taxable profit in the next five years and it is probable that future taxable profit will be available against which the net tax loss can be utilized, the deductible net tax loss is recognized as a benefit to Changjiu Jinfu from tax perspective. A tax benefit and deferred tax assets were recognized in 2020 accordingly.

Our income tax expenses amounted to RMB9.4 million in 2021. Our effective income tax rate, calculated as our income tax expenses divided by profit before tax, of 10.1% in 2021 was lower than the statutory tax rate in the PRC, which was primarily due to the Reorganization in 2021, where Changjiu Industrial incurred losses after tax adjustment and therefore the profit for the pledged vehicle monitoring business operated by Changjiu Industrial was not subject to tax prior to the Reorganization.

Profit for the Year

For the foregoing reasons, our profit for the year decreased by 26.6% from RMB114.1 million in 2020 to RMB83.7 million in 2021.

DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

The following table sets forth a summary of our consolidated statements of financial position as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB'000)			
Non-current assets				
Property, plant and equipment	3,743	3,042	2,790	2,428
Intangible assets	5,064	4,204	3,412	8,586
Right-of-use assets	664	4,640	5,829	10,180
Deferred tax assets	4,393	331	1,512	4,655
Total non-current assets	**13,864**	**12,217**	**13,543**	**25,849**
Current assets				
Trade receivables	39,964	59,861	101,311	179,783
Prepaid expenses and other current assets	148,750	145,308	26,969	11,661
Cash and cash equivalents	89	1,533	119,341	72,395
Total current assets	**188,803**	**206,702**	**247,621**	**263,839**
Current liabilities				
Bank loans	50,000	50,000	75,000	35,000
Trade payables	25,741	25,469	28,507	26,488
Accrued expenses and other current liabilities	40,518	49,406	58,012	71,800
Contract liabilities	52,657	69,426	58,923	50,668
Lease liabilities	218	2,334	6,353	7,120
Current tax liabilities	–	3,712	22,180	30,234
Total current liabilities	**169,134**	**200,347**	**248,975**	**221,310**
Net current assets/(liabilities)	**19,669**	**6,355**	**(1,354)**	**42,529**
Non-current liabilities				
Lease liabilities	397	2,359	64	7,308
Total non-current liabilities	397	2,359	64	7,308
Net assets	**33,136**	**16,213**	**12,125**	**61,070**

Intangible Assets

Our intangible assets amounted to RMB5.0 million, RMB4.2 million and RMB3.4 million as of December 31, 2020, 2021 and 2022, respectively, primarily reflecting the book value of our VFS system. Our intangible assets increased from RMB3.4 million as of December 31, 2022 to RMB8.6 million as of June 30, 2023, primarily due to the purchase of the North Star System and related software copyright from certain related party for our automobile dealership operation management services.

Right-of-use assets

Our right-of-use assets consisted primarily of leases for offices and apartments for our staff, which amounted to RMB0.7 million, RMB4.6 million and RMB5.8 million as of December 31, 2020, 2021 and 2022, respectively. Our right-of-use assets increased from RMB5.8 million as of December 31, 2022 to RMB10.2 million as of June 30, 2023, primarily due to the extension and rent increase on the lease for our office in Beijing.

Trade Receivables

Our trade receivables primarily represent outstanding amounts due from financial institutions and related parties. The following table sets forth the details of our trade receivables as of the dates indicated and trade receivable turnover days for the periods indicated.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB'000)			
Trade receivables				
– Third parties	40,714	56,902	94,948	170,319
– Related parties	243	3,860	9,284	16,335
Sub-total	40,957	60,762	104,232	186,654
Less: loss allowance	(993)	(901)	(2,921)	(6,871)
Net trade receivables	**39,964**	**59,861**	**101,311**	**179,783**

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB'000)			
Trade receivable turnover days[1]				
– Third parties	35	38	59	92
– Related parties	51	29	29	47
– Overall	35	39	55	85

Note:

(1) Calculated by dividing the arithmetic mean of the opening and ending balance of trade receivables in that period by revenue for the corresponding period and then multiplying by 365 days for a full year period or 180 days for a six-month period.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, we had trade receivables of RMB40.0 million, RMB59.9 million, RMB101.3 million and RMB179.8 million, respectively. The increase of our trade receivables was primarily attributable to the growth of our business and revenue during the Track Record Period.

Our overall trade receivable turnover days was 35 days, 39 days, 55 days and 85 days in 2020, 2021 and 2022 and the six months ended June 30, 2023, respectively. The increase in our trade receivable turnover days in 2022 was mainly due to prolonged internal settlement review processes of financial institutions as a result of periodic resurgence of the COVID-19 pandemic. The increase in our trade receivable turnover days in the six months ended June 30, 2023 was primarily attributable to (i) an increase in the number of pledged vehicle monitoring service agreements where the financial institutions (instead of automobile dealerships) bear the payment obligation, which often make payments of relevant service fees after the services are provided, whereas automobile dealerships typically make advance payments for our services; and (ii) prolonged settlement process by financial institutions due to their internal review.

We periodically perform an impairment analysis using a provision matrix to measure expected credit losses and assess our credit risk exposure. As of December 31, 2020, 2021 and 2022 and June 30, 2023, we recorded loss allowance of RMB1.0 million, RMB0.9 million, RMB2.9 million and RMB6.9 million, respectively.

The following table sets forth an aging analysis, based on the transaction date and net of loss allowance, of our trade receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB'000)			
Within three months	33,122	53,055	82,032	98,566
Three months to six months	4,202	4,558	11,190	57,382
Six months to one year	1,656	1,625	7,862	22,251
Over one year	1,977	1,524	3,148	8,455
Sub-total	40,957	60,762	104,232	186,654
Less: loss allowance	(993)	(901)	(2,921)	(6,871)
Total	**39,964**	**59,861**	**101,311**	**179,783**

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the aging. We use a provision matrix to calculate expected credit loss for our trade receivables taking account historical observed default rates and forward-looking information.

We believe there is no recoverability issue for our trade receivables and there is a sufficient provision given: (i) our periodic performance of impairment analysis using a provision matrix to measure expected credit losses and assessment of our credit risk exposure; and (ii) we have been exerting efforts to enhance the management and collection of trade receivables, in particular, we closely monitor the status of our trade receivables, we hold periodic meetings to discuss the status of trade receivables, and we timely communicate with relevant parties and remind them of due payments through various channels. We have monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review regularly the recoverable amount of trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts.

As of October 31, 2023, 71.4%, or RMB133.3 million, of our trade receivables as of June 30, 2023 had been subsequently settled.

Prepaid Expenses and Other Current Assets

Our prepaid expenses and other current assets primarily consist of (i) amounts due from related parties; (ii) loans to a third party; (iii) deposits, primarily representing deposits paid for business tendering; (iv) prepaid expenses, primarily representing the capitalized [**REDACTED**] expenses and prepaid expenses related to the purchase of certain IT systems for office management; and (v) prepaid income tax. The following table sets forth the details of prepaid expenses and other current assets as of the dates indicated.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB'000)			
Amounts due from related parties	148,303	139,813	25,179	5,265
Loans to a third party	–	4,800	–	–
Deposits	791	1,103	287	307
Prepaid expenses	96	14	605	5,191
Prepaid income tax	–	–	898	898
Less: loss allowance	(440)	(422)	–	–
Total	**148,750**	**145,308**	**26,969**	**11,661**

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our amounts due from related parties amounted to RMB148.3 million, RMB139.8 million, RMB25.2 million and RMB5.3 million, respectively, all of which were of a non-trade nature. The non-trade amounts due from related parties were attributable to (i) the fund management between Changjiu Group and us and (ii) the services fees collected by Changjiu Group on our behalf in connection with certain pledged vehicle monitoring service agreements transferred to Changjiu Jinfu. The non-trade amounts due from related parties as of June 30, 2023 will be fully settled before the [**REDACTED**]. See "—Related Party Transactions" for details.

Our prepaid expenses and other current assets decreased from 2020 to 2021, primarily due to a decrease in amounts due from related parties, which was partially offset by loans we lent to an Independent Third Party in November 2021 to supplement its working capital. The loans had an annual interest rate of 6% and a term of 12 months. The Independent Third Party was the target company for our potential investment in an automobile-related e-commerce platform. The potential investment did not consummate after negotiation and due diligence in December 2021, following which the loans were repaid to us in full, in June 2022.

Under the General Lending Provisions (《貸款通則》), only financial institutions may legally engage in the business of extending loans, and loans between companies that are not financial institutions are prohibited. The PBOC may impose penalties on the lender equivalent to one to five times of the income generated (being interests charged) from loan advancing activities. However, pursuant to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》), or the Provisions, promulgated on August 6, 2015, effective on September 1, 2015 and amended on August 20, 2020 and December 29, 2020, loans among companies are valid if extended for purposes of financing production or business operations, except for circumstances resulting in a void agreement stipulated in the Civil Code of the PRC and the Provisions. The PRC courts will also support a company's claim for interest in respect of such a loan as long as the annual interest rate does not exceed four times the one-year loan prime rate, at the time when the agreement is entered into, published every month by National Interbank Funding Center (全國銀行間同業拆借中心) with the authorization from PBOC. Our PRC Legal Advisors are of the view that our financing arrangement with the third party does not violate the applicable provisions of the Civil Code of the PRC or the Provisions, after taking into consideration that our financing arrangement with the third party was extended for purposes of financing business operations and in compliance with the requirements of the Provisions above.

Our prepaid expenses and other current assets further decreased from 2021 to 2022, which was primarily due to a decrease in amounts due from related parties and the repayment of the loans by the Independent Third Party. Our prepaid expenses and other current assets further decreased from December 31, 2022 to June 30, 2023, primarily due to a decrease in amounts due from related parties, which was partially offset by an increase in prepaid expenses, primarily reflecting increased capitalized [**REDACTED**] expenses of RMB[**REDACTED**] and prepaid expenses of RMB1.7 million for the purchase of certain IT systems for office management.

Cash and Cash Equivalents

As of December 31, 2020, 2021 and 2022 and June 30, 2023, we had cash and cash equivalents of RMB89,000, RMB1.5 million, RMB119.3 million and RMB72.4 million, respectively. The low cash balances as of December 31, 2020 and 2021 were primarily due to the deemed distribution in relation to cash transferred to Changjiu Industrial prior to the Reorganization in 2021. Our cash and cash equivalents decreased from December 31, 2022 to June 30, 2023, primarily as a result of the repayment of certain bank loans.

Bank Loans

As of December 31, 2020, 2021 and 2022, we had bank loans of RMB50.0 million, RMB50.0 million, and RMB75.0 million, respectively. The bank loans bore annual interest rates of 5.66%, 4.60%, and 4.60% as of December 31, 2020, 2021 and 2022, respectively, and were guaranteed by the Ultimate Controlling Shareholders and Changjiu Industrial, which are related parties of the Group. The bank loans as of December 31, 2022 were fully repaid, and the related guarantees were released, in April 2023. As of June 30, 2023, we had bank loans of RMB35.0 million, which bore an annual interest rate of 4.60% and was secured by the pledge of certain trade receivables from financial institutions. See "—Indebtedness" for details.

Trade Payables

Our trade payables primarily consist of payments due to our subcontracting service providers. In general, we are required to settle subcontracting service fees on a monthly basis. The following table sets forth the details of our trade payables as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
		(RMB'000)		
Trade payables				
– Third parties	25,071	25,469	28,507	26,488
– A related party	670	–	–	–
Total	**25,741**	**25,469**	**28,507**	**26,488**

The following table sets forth an aging analysis of trade payables based on the invoice dates as of the dates indicated and trade payable turnover days for the periods indicated.

	As of/For the year ended December 31,			As of/ For the six months ended June 30,
	2020	2021	2022	2023
			(RMB'000)	
Within six months	25,728	25,469	28,507	26,488
Six months to one year	13	–	–	–
Total	**25,741**	**25,469**	**28,507**	**26,488**
Trade payable turnover days[1]	36	32	31	28

Note:

(1) Calculated by dividing the arithmetic mean of the opening and ending balance of trade payables in that period by cost of sales for the corresponding period and then multiplying by 365 days for a full year period or 180 days for a six-month period.

Our trade payables remained stable as of December 31, 2020 and 2021. Our trade payables increased from RMB25.5 million as of December 31, 2021 to RMB28.5 million as of December 31, 2022 as a result of our business expansion. Our trade payables decreased from RMB28.5 million as of December 31, 2022 to RMB26.5 million as of June 30, 2023 as a result of settlement of certain payments due. Our trade payable turnover days was generally in line with the credit term granted by our subcontractors throughout the Track Record Period.

As of October 31, 2023, RMB23.9 million, or 90.1%, of our trade payables as of June 30, 2023 had been subsequently settled.

Our Directors confirm that we had no material defaults in payment of our trade or non-trade payables during the Track Record Period and up to the Latest Practicable Date.

Accrued Expenses and Other Current Liabilities

Our accrued expenses and other current liabilities consist of (i) other payables to customers, primarily representing advance payments we received from automobile dealerships, which subsequently terminated their financing relationship (typically after the pledged vehicles were sold or the secured financings were paid off) with the relevant financial institutions or where financial institutions took over the obligation to pay service fees under the tripartite pledged vehicle monitoring service agreements during the service period; (ii) accrued payroll and welfare; (iii) value-added tax and surcharges payables; (iv) deposits we received from automobile dealerships for our devices; (v) amounts due to related parties; (vi) restricted shares repurchase liability; (vii) accrued [**REDACTED**] expenses and (viii) others. The following table sets forth the details of our accrued expenses and other current liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB'000)			
Other payables to customers	13,983	20,167	26,634	34,880
Accrued payroll and welfare	5,838	9,152	15,209	12,429
Value-added tax and surcharges payable	15,757	13,837	10,168	10,174
Deposit received from third parties	3,179	2,933	2,603	2,535
Amounts due to related parties	1,301	1,301	1,301	2,391
Restricted shares repurchase liability	–	–	–	4,325
Accrued [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Others(1)	460	2,016	2,097	1,023
Total	**40,518**	**49,406**	**58,012**	**71,800**

Note:

(1) Mainly included payables for professional service fees and staff reimbursement.

Our accrued expenses and other current liabilities increased from RMB40.5 million as of December 31, 2020 to RMB49.4 million as of December 31, 2021, which was primarily due to an RMB6.2 million increase in other payables to customers and an increase of RMB3.3 million in accrued payroll and welfare. Our accrued expenses and other current liabilities increased from RMB49.4 million as of December 31, 2021 to RMB58.0 million as of December 31, 2022, which was primarily due to an RMB6.5 million increase in other payables to customers and an increase of RMB6.1 million in accrued payroll and welfare. Our accrued expenses and other current liabilities increased from RMB58.0 million as of December 31, 2022 to RMB71.8 million as of June 30, 2023, which was primarily due to (i) an increase of RMB8.2 million in other payables to customers, (ii) an RMB4.3 million of restricted shares repurchase liability associated with the grant of certain restricted shares in March 2023 and (iii) an RMB[**REDACTED**] of accrued [**REDACTED**] expenses associated with this [**REDACTED**].

Other payables to customers increased throughout the Track Record Period, which was primarily due to the accumulation of prepaid service fees to be refunded to automobile dealerships when (i) the automobile dealerships terminated their financing relationship (typically after the pledged vehicles were sold or the secured financings were paid off) with the relevant financial institutions and the related pledged vehicle monitoring service agreements with us pursuant to the relevant contractual terms, which, according to CIC, this is a common practice in the automobile sales and distribution industry in China; or (ii) there was a change in settlement party from the automobile dealerships to the financial institutions under certain of our pledged vehicle monitoring service agreements. We typically received advance payments from automobile dealerships prior to the provision of our pledged vehicle monitoring services, but financial institutions may choose to take over the obligation to pay for the same services under the service agreements and paid the relevant service fees during the service period. The advances payment of services fees we received from automobile dealerships then becomes the amount of payables back to them. Financial institutions may choose to take over the obligation to pay service fees following further negotiation with automobile dealerships, which we believe is based on their internal requirements and their evaluation of evolving customer needs and competition landscape in an effort to improve their competitiveness and increase the attractiveness of their products. We are typically indifferent to the arrangement of paying party, primarily because (i) we provide the same services to financial institutions and automobile dealerships regardless of who is the paying party under the tripartite agreements; and (ii) based on our experience, both financial institutions and automobile dealerships were creditworthy and had no material defaults on their service payments during the Track Record Period. See "Business—Pledged Vehicle Monitoring Services—Overview" for a detailed discussion on payment negotiation factors. Our Directors confirm that the other payables to customers during the Track Record Period did not have a material adverse effect on our business, financial position or results of operations.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our amounts due to related parties amounted to RMB1.3 million, RMB1.3 million, RMB1.3 million and RMB2.4 million, respectively, all of which were of a trade nature. See "—Related Party Transactions" for details.

Contract Liabilities

Our contract liabilities primarily represent advance payments from customers for the provision of pledged vehicle monitoring services. Our contract liabilities amounted to RMB52.7 million, RMB69.4 million, RMB58.9 million and RMB50.7 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. During the Track Record Period, some of the automobile dealerships prepay the service fees in advance on a monthly or quarterly basis, while other customers, particularly financial institutions, may be granted credit terms by us for our pledged vehicle monitoring services. Our contract liabilities fluctuated during the Track Record Period because of changes in the mix of paying customers.

The following table sets forth an aging analysis of our contract liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
		(RMB'000)		
Within three months	45,494	56,468	47,649	38,129
Three months to six months	4,676	7,718	8,203	9,774
Six months to one year	1,715	3,564	1,320	2,551
More than one year	772	1,676	1,751	214
Total	**52,657**	**69,426**	**58,923**	**50,668**

As of October 31, 2023, 77.1%, or RMB39.1 million, of our contract liabilities as of June 30, 2023 had been subsequently recognized as revenue.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash during the Track Record Period were to fund our subcontracting costs, employee compensation, research and development, sales and marketing of our services, as well as other working capital needs. Historically, we have financed our operations and other capital requirements primarily through cash generated from our operations and proceeds from bank loans.

Our anticipated cash needs primarily include costs associated with business operations. We expect to fund our future working capital and other cash requirements with cash generated from our operations, the [**REDACTED**] from [**REDACTED**] and, when necessary, bank loans and other borrowings. Taking into account our internal resources, our cash flow from operations, proceeds from bank loans and the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the view, and the Joint Sponsors concur, that the working capital available to us is sufficient at present and for at least the next 12 months from the date of this document.

Net Current Assets

The following table sets forth a summary of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of October 31,
	2020	2021	2022	2023	2023
			(RMB'000)		
					(unaudited)
Current assets					
Trade receivables	39,964	59,861	101,311	179,783	181,457
Prepaid expenses and other current assets	148,750	145,308	26,969	11,661	27,548
Cash and cash equivalents	89	1,533	119,341	72,395	94,407
Total current assets	**188,803**	**206,702**	**247,621**	**263,839**	**303,412**
Current liabilities					
Bank loan	50,000	50,000	75,000	35,000	35,000
Trade payables	25,741	25,469	28,507	26,488	26,362
Accrued expenses and other current liabilities	40,518	49,406	58,012	71,800	62,453
Contract liabilities	52,657	69,426	58,923	50,668	42,303
Lease liabilities	218	2,334	6,353	7,120	7,184
Current tax liabilities	–	3,712	22,180	30,234	30,725
Total current liabilities	**169,134**	**200,347**	**248,975**	**221,310**	**204,027**
Net current assets/(liabilities)	**19,669**	**6,355**	**(1,354)**	**42,529**	**99,385**

Our net current assets decreased from RMB19.7 million as of December 31, 2020 to RMB6.4 million as of December 31, 2021, which was primarily due to (i) an RMB16.8 million increase in contract liabilities arising from advance payments from customers for the provision of pledged vehicle monitoring services; (ii) an RMB8.9 million increase in accrued expenses and other current liabilities; and (iii) an RMB3.7 million increase in current tax liabilities, partially offset by an RMB19.9 million increase in trade receivables.

We recorded net current liabilities of RMB1.4 million as of December 31, 2022, which was primarily due to the RMB101.0 million consideration paid in 2022 to acquire the 100% equity interest in Changjiu Jinfu as part of the Reorganization. See "History, Reorganization and Corporate Structure—Onshore Reorganization—Acquisition of Changjiu Jinfu by Shanghai Bozhong" for details.

Our net current liabilities of RMB1.4 million as of December 31, 2022 turned to net current assets of RMB42.5 million as of June 30, 2023, which was primarily due to an increase of RMB78.5 million in trade receivables and a decrease of RMB40.0 million in bank loans, partially offset by a decrease of RMB46.9 million in cash and cash equivalents and an increase of RMB13.8 million in accrued expenses and other current liabilities.

Our net current assets increased from RMB42.5 million as of June 30, 2023 to RMB99.4 million as of October 31, 2023, which was primarily attributable to an RMB22.0 million increase in cash and cash equivalents, an RMB15.9 million increase in prepaid expenses and other current assets and an RMB9.3 million decrease in accrued expenses and other current liabilities.

Cash Flows

The following table sets forth a summary of our consolidated cash flow statements for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2020	**2021**	**2022**	**2022**	**2023**
			(RMB'000)		
				(unaudited)	
Operating profit before changes in working capital	116,739	111,023	139,986	68,636	78,574
Changes in working capital	7,488	5,353	(42,631)	(75,082)	(84,059)
Income tax paid	–	(1,644)	(15,325)	(2,681)	(15,270)
Net cash generated from/(used in) operating activities	124,227	114,732	82,030	(9,127)	(20,755)
Net cash (used in)/generated from investing activities	(74,508)	(52,935)	118,584	(20,036)	12,406
Net cash (used in)/ generated from financing activities	(67,981)	(60,353)	(82,806)	38,337	(38,768)

	For the year ended December 31,			For the six months ended June 30,	
	2020	2021	2022	2022	2023
			(RMB'000)		
				(unaudited)	
Net (decrease)/increase in cash and cash equivalents	(18,262)	1,444	117,808	9,174	(47,117)
Cash and cash equivalents at the beginning of the year/period	18,351	89	1,533	1,533	119,341
Effect of foreign exchange rate changes	–	–	–	–	171
Cash and cash equivalents at the end of the year/period	89	1,533	119,341	10,707	72,395

Operating Activities

In the six months ended June 30, 2023, our net cash used in operating activities was RMB20.8 million, which was primarily the result of our profit before tax of RMB55.5 million, as adjusted for non-cash and non-operating items, which was further adjusted by negative changes in working capital of RMB84.1 million and income tax paid of RMB15.3 million. The negative changes in working capital were mainly due to (i) an RMB82.4 million increase in trade receivables; and (ii) an RMB8.3 million decrease in contract liabilities, partially offset by an RMB9.5 million increase in accrued expenses and other liabilities. Our cash outflow was primarily due to an increase in trade receivables for the six months ended June 30, 2023. To address our cash outflow position, we intend to enhance our efforts in the collection of trade receivables and maintain strict control over our trade receivables and overdue balances on an ongoing basis, in particular, we closely monitor the status of our trade receivables, we hold periodic meetings to discuss the status of trade receivables, and we timely communicate with relevant parties and remind them of due payments through various channels. In addition, we intend to further enhance our cost control measures, such as implementing technological initiatives and digitalization efforts to reduce our reliance on manpower.

In the six months ended June 30, 2022, our net cash used in operating activities was RMB9.1 million, which was primarily the result of our profit before tax of RMB62.9 million, as adjusted for non-cash and non-operating items, which was further adjusted by negative changes in working capital of RMB75.1 million and income tax paid of RMB2.7 million. The negative changes in working capital were mainly due to (i) an RMB68.8 million increase in trade receivables; and (ii) an RMB16.4 million decrease in contract liabilities, partially offset by an RMB10.1 million increase in accrued expenses and other liabilities. Our cash outflow was primarily due to an increase in trade receivables for the six months ended June 30, 2022.

In 2022, we had net cash generated from operating activities of RMB82.0 million, primarily attributable to our profit before tax of RMB127.6 million, as adjusted for non-cash and non-operating items, which was further adjusted by negative changes in working capital and income tax paid of RMB15.3 million. The negative changes in working capital were mainly due to (i) an RMB43.7 million increase in trade receivables as a result of the growth of our business and revenue; and (ii) an RMB10.5 million decrease in contract liabilities arising from advance payments from customers for the provision of pledged vehicle monitoring services, partially offset by an RMB8.6 million increase in accrued expenses and other liabilities as a result of an increase in other payables to customers and accrued payroll and welfare, and an RMB3.0 million increase in trade payable.

In 2021, we had net cash generated from operating activities of RMB114.7 million, primarily attributable to our profit before tax of RMB93.1 million, as adjusted for non-cash and non-operating items, which was further adjusted by positive changes in working capital and income tax paid of RMB1.6 million. The positive changes in working capital were mainly attributable to (i) an RMB16.8 million increase in contract liabilities arising from advance payments from customers for the provision of pledged vehicle monitoring services; and (ii) an RMB8.9 million increase in accrued expenses and other liabilities, partially offset by an RMB19.8 million increase in trade receivables as a result of the growth of our business and revenue.

In 2020, we had net cash generated from operating activities of RMB124.2 million, primarily attributable to our profit before tax of RMB109.8 million, as adjusted for non-cash and non-operating items, which was further adjusted by positive changes in working capital. The positive changes in working capital were mainly attributable to (i) an RMB3.3 million decrease in trade receivables; (ii) an RMB2.7 million increase in contract liabilities arising from advance payments from customers for the provision of pledged vehicle monitoring services; and (iii) an RMB2.2 million increase in trade payables as a result of our business expansion, partially offset by an RMB1.9 million decrease in accrued expenses and other liabilities.

Investing Activities

In the six months ended June 30, 2023, our net cash generated from investing activities was RMB12.4 million, primarily attributable to net receipt from related parties of RMB14.3 million, partially offset by prepayment for acquisition of intangible assets of RMB1.7 million.

In 2022, our net cash generated from investing activities was RMB118.6 million, primarily attributable to net receipts from related parties of RMB114.6 million and loan of RMB4.8 million.

In 2021, our net cash used in investing activities was RMB52.9 million, primarily attributable to (i) net payments to related parties of RMB37.0 million; (ii) non-refundable earnest money we paid for an unconsummated investment of RMB10.0 million; and (iii) loans to a third party of RMB4.8 million.

In 2020, our net cash used in investing activities was RMB74.5 million, attributable to (i) net payments to related parties of RMB73.5 million; and (ii) purchase of property, plant and equipment of RMB1.0 million.

Financing Activities

In the six months ended June 30, 2023, our net cash used in financing activities was RMB38.8 million, primarily attributable to repayment of bank loans of RMB75.0 million, partially offset by proceeds from bank loans of RMB35.0 million.

In 2022, our net cash used in financing activities was RMB82.8 million, primarily attributable to the RMB101.0 million consideration paid in 2022 to acquire the 100% equity interest in Changjiu Jinfu as part of the Reorganization and repayment of bank loans of RMB50.0 million, partially offset by proceeds from bank loans of RMB75.0 million.

In 2021, our net cash used in financing activities was RMB60.4 million, primarily attributable to repayment of bank loans of RMB50.0 million, deemed distribution in relation to cash transferred to Changjiu Industrial of RMB33.1 million and dividend paid by Changjiu Jinfu to its then shareholders of RMB22.0 million, partially offset by proceeds from bank loans of RMB50.0 million.

In 2020, our net cash used in financing activities was RMB68.0 million, primarily attributable to deemed distribution in relation to cash transferred to Changjiu Industrial of RMB115.2 million, partially offset by proceeds from bank loans of RMB50.0 million.

INDEBTEDNESS

The following table sets forth a summary of our indebtedness as of the dates indicated.

	As of December 31,			**As of June 30, 2023**	**As of October 31, 2023**
	2020	**2021**	**2022**		
			(RMB'000)		
					(unaudited)
Bank loans	50,000	50,000	75,000	35,000	35,000
Lease liabilities	615	4,693	6,417	14,428	14,629
Total	**50,615**	**54,693**	**81,417**	**49,428**	**49,629**

As of December 31, 2020, 2021 and 2022, June 30, 2023 and October 31, 2023, we had bank loans of RMB50.0 million, RMB50.0 million, RMB75.0 million, RMB35.0 million and RMB35.0 million, respectively, representing short-term working capital loans from reputable PRC commercial banks, which was primarily used to fund our business operation. The bank loans outstanding as of October 31, 2023 were secured by a pledge of certain of our trade receivables from financial institutions.

As of December 31, 2020, 2021 and 2022, June 30, 2023 and October 31, 2023, we recorded lease liabilities of RMB0.6 million, RMB4.7 million, RMB6.4 million, RMB14.4 million and RMB14.6 million, respectively, which were primarily in relation to the properties we leased for our office premises. The lease liabilities increased during the Track Record Period as we renewed our leases from time to time and leased more spaces for our office premises during the Track Record Period.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, October 31, 2023 and the Latest Practicable Date, we did not have any contingent liabilities. We confirm that there had been no material changes or arrangements to our contingent liabilities as of the Latest Practicable Date.

We had unutilized banking facilities of RMB25.0 million as of the Latest Practicable Date.

As of December 31, 2020, 2021 and 2022 and June 30, 2023 and October 31, 2023, except as disclosed above, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, acceptance credits, hire purchase commitments, any guarantees or other material contingent liabilities. Since October 31, 2023 and up to the Latest Practicable Date, our Directors confirm there had been no adverse change to our indebtedness. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material difficulties in obtaining or repaying bank loans or other borrowings and they were not aware of any breach of covenants contained in our banking or other borrowing facilities constituting any events of default.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

Our capital expenditure during the Track Record Period related to purchases of property, plant and equipment and intangible assets. In 2020, 2021 and 2022 and the six months ended June 30, 2023, the total amount of purchase of property, plant and equipment were RMB1.0 million, RMB1.1 million, RMB1.0 million and RMB0.1 million, respectively. In the six months ended June 30, 2023, we recorded prepayment for acquisition of intangible assets of RMB1.7 million, related to the purchase of certain IT systems for office management. During the Track Record Period, we financed our capital expenditures primarily through cash flow from operations.

We expect our capital expenditure in 2023 to remain at similar level, subject to any future changes in our business plan, market conditions, and the economic and regulatory environment. We plan to finance such expenditure primarily through cash flow from operating activities and the [**REDACTED**] from the [**REDACTED**].

Commitments

As of December 31, 2020, 2021 and 2022, we did not have any material capital commitment. As of June 30, 2023, we had capital commitments of RMB14.8 million associated with the acquisition of certain software for office management.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any contingent liabilities. We confirm that there had been no material changes or arrangements to our contingent liabilities as of the Latest Practicable Date.

RELATED PARTY TRANSACTIONS

During the Track Record Period, our transactions with related parties primarily include (i) payment of remuneration to key management personnel; (ii) transactions with related parties for provision of services and purchase of intangible asset; (iii) advance to and repayment from related parties; and (iv) transactions with related parties for lease arrangements, as described in Note 26 to the Accountants' Report in Appendix I to this document.

Provisions of Services

We provided pledged vehicle monitoring services and automobile dealership operation management services to related parties, including a company controlled by Ms. Li, during the Track Record Period. In 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, revenue recorded for providing services to related parties, including the aforementioned company controlled by Ms. Li, amounted to RMB1.7 million, RMB9.3 million, RMB81.8 million, RMB34.5 million and RMB49.5 million, respectively, representing for 0.4%, 2.0%, 14.9%, 13.3% and 16.0% of our total revenue for the same periods. In 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, the revenue recorded for providing pledged vehicle monitoring services to the aforementioned company controlled by Ms. Li amounted to RMB1.1 million, RMB0.7 million, RMB0.7 million, RMB0.6 million and nil, respectively. The revenue recorded for providing services to related parties significantly increased from 2021 to 2022 and the six months ended June 30, 2023, which was primarily attributable to the fact that we started to provide automobile dealership operation management services to related parties in April 2022 and the derived revenue under the entrustment arrangements between Changjiu Industrial and us.

Services Received from Related Parties

During the Track Record Period, we received technology and operational services from related parties. In 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, the expenses of services received from related parties amounted to RMB6.3 million, RMB2.4 million, RMB20.1 million, RMB6.5 million and RMB1.1 million, respectively. The expenses increased from 2021 to 2022, which was primarily due to the technical service fees of RMB11.8 million we incurred for testing and implementation of our North Star System for our automobile dealership operation management services. Such services were provided by our related party in 2022 and were one-off in nature. See "—Description of Certain Consolidated Statements of Profit or Loss—Cost of Sales" for details.

Purchase of Intangible Asset from Related Parties

In the six months ended June 30, 2023, we made a purchase of RMB5.7 million from a related party for the North Star System for the provision of our automobile dealership operation management services. Such purchase was one-off and non-recurring in nature and the amount was settled by offsetting the amount due from the related party.

Lease Payments

In 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, our lease payment to related parties amounted to RMB1.9 million, RMB2.5 million, RMB4.2 million, nil and nil, respectively.

Net Change of Non-trade Related Amounts Due from Related Parties

When we were part of Changjiu Group, there were fund transfers among related parties as a result of the fund management between Changjiu Group and us. The net change of non-trade related amounts due from related parties was RMB73.5 million, negative RMB8.5 million, negative RMB114.6 million, RMB24.7 million and negative RMB19.9 million in 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, respectively.

Balances with Related Parties

The following table sets for a breakdown of our amounts due from and due to related parties as of the dates indicated.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB'000)			
Amounts due from related parties	**148,546**	**143,673**	**33,378**	**20,515**
– Trade related	243	3,860	8,199	15,250
– Non-trade related	148,303	139,813	25,179	5,265
Amounts due to related parties	**1,971**	**1,301**	**1,301**	**2,391**
– Trade related	1,971	1,301	1,301	2,391
Contract liabilities	**–**	**6,723**	**5,732**	**4,031**
– Trade related	–	6,723	5,732	4,031

The amounts due from and due to related parties of a non-trade nature are non-interest-bearing and unsecured. Our Directors are of the view that the transactions with related parties were conducted on an arm's-length basis.

The contract liabilities arose primarily from the Unassigned Agreements under the business transfer of pledged vehicle monitoring services from Changjiu Industrial to us as part of the Reorganization. Despite that Changjiu Industrial is still a signing party of the Unassigned Agreements, Changjiu Industrial does not directly provide any pledged vehicle monitoring services to the users under such agreements and has entirely and exclusively entrusted such services to us. See "History, Reorganization and Corporate Structure—Reorganization—Onshore Reorganization—Business transfer of pledged vehicle monitoring services" and "Connected Transactions—Non-exempt Continuing Connected Transaction—Entrustment Agreement" for further details of the business transfer and the entrustment arrangements between Changjiu Industrial and us.

The amounts due from related parties of a non-trade nature will be settled before the [**REDACTED**].

KEY FINANCIAL RATIOS

The following table set forth our key financial ratios as of the dates or for the periods indicated.

	As of/For the year ended December 31,			As of/For the six months ended June 30,	
	2020	2021	2022	2022	2023
				(unaudited)	
Return on equity[(1)](%)	344.3	339.3	676.9	(493.5)[(6)]	96.4
Return on asset[(2)](%)	56.3	39.7	40.0	17.9	12.8
Current ratio[(3)]	1.1	1.0	1.0	0.9	1.2
Liabilities to assets ratio[(4)]	0.8	0.9	1.0	1.1	0.8
Gearing ratio[(5)] (%)	150.9	308.4	618.6	(248.5)[(6)]	57.3

Notes:

(1) Equals profit for the period divided by average balance of total equity at the beginning and the end of that period and multiplied by 100%.

(2) Equals profit for the period divided by average balance of total assets at the beginning and the end of that period and multiplied by 100%.

(3) Current ratio represents current assets divided by current liabilities as of the same date.

(4) Liabilities to assets ratio represents total liabilities divided by total assets as of the same date.

(5) Gearing ratio represents the sum of interest-bearing bank loans divided by total equity as of the same dates and multiplied by 100%.

(6) As of June 30, 2022, our return on equity and gearing ratio were negative primarily because we recorded net liabilities as of the same date.

Return on Equity

Our return on equity remained stable in 2020 and 2021. Our return on equity increased from 339.3% in 2021 to 676.9% in 2022, primarily attributable to a decrease in our equity from RMB33.1 million as of December 31, 2020 to RMB16.2 million as of December 31, 2021, and further to RMB12.1 million as of December 31, 2022, which was primarily attributable to a deemed distribution in relation to cash transferred to Changjiu Industrial in 2021, a dividend distribution by Changjiu Jinfu to its then shareholders in 2021, and the consideration paid in 2022 to acquire the 100% equity interest in Changjiu Jinfu as part of the Reorganization.

Our return on equity decreased from 676.9% in 2022 to 96.4% in the six months ended June 30, 2023, primarily attributable to (i) the increase in our total equity from RMB12.1 million as of December 31, 2022 to RMB61.1 million as of June 30, 2023, primarily as a result of the net profit of RMB35.3 million recorded for the period; and (ii) the fact that only profit for the first half of 2023 was taken into account in our calculation of return on equity for the six months ended June 30, 2023 as compared to the full year effect in 2022.

Return on Asset

Our return on assets decreased from 56.3% in 2020 to 39.7% in 2021, which was primarily due to the fact that the profit for the year decreased while total assets also increased from 2020 to 2021. Our return on assets remained stable in 2021 and 2022.

Our return on asset decreased from 40.0% in 2022 to 12.8% in the six months ended June 30, 2023, primarily attributable to the fact that only profit for the first half of 2023 was taken into account in our calculation of return on asset for the six months ended June 30, 2023 as compared to the full year effect in 2022.

Current Ratio

Our current ratio remained relatively stable during the Track Record Period.

Liabilities to Assets Ratio

Our liabilities to assets ratio increased slightly from 0.8 as of December 31, 2020 to 0.9 as of December 31, 2021, and further increased to 1.0 as of December 31, 2022 as the increase in total liabilities outpaced the increase in total assets. Our liabilities to assets ratio decreased from 1.0 as of December 31, 2022 to 0.8 as of June 30, 2023, as our total liabilities decreased from December 31, 2022 to June 30, 2023, while our total assets increased during the same period.

Gearing Ratio

Our gearing ratio increased from 150.9% as of December 31, 2020 to 308.4% as of December 31, 2021, primarily due to a decrease in our equity from RMB33.1 million as of December 31, 2020 to RMB16.2 million as of December 31, 2021, which was primarily attributable to a deemed distribution in relation to cash transferred to Changjiu Industrial in 2021 and a dividend distribution by Changjiu Jinfu to its then shareholders in 2021. Our gearing ratio increased from 308.4% as of December 31, 2021 to 618.6% as of December 31, 2022, primarily due to an increase in our bank loans from RMB50.0 million as of December 31, 2021 to RMB75.0 million as of December 31, 2022, as well as a decrease in our equity from RMB16.2 million as of December 31, 2021 to RMB12.1 million as of December 31, 2022, which was primarily attributable to the consideration paid in 2022 to acquire the 100% equity interest in Changjiu Jinfu as part of the Reorganization, which in turn contributed to a relatively high gearing ratio as of December 31, 2022. Our gearing ratio decreased from 618.6% as of December 31, 2022 to 57.3% as of June 30, 2023, primarily due to the decrease in bank loans from RMB75.0 million as of December 31, 2022 to RMB35.0 million as of June 30, 2023, and the significant increase in our total equity in the same period primarily as a result of the recorded net profit.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to a variety of financial risks, including credit risk, liquidity risk and interest rate risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. See Note 25 to the Accountants' Report in Appendix I to this document for further details.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to our Group. Our credit risk is primarily attributable to trade receivables. For trade receivables, we have policies in place to ensure that provisions of services are made to customers with an appropriate credit history. We also have other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review regularly the recoverable amount of trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which we consider to have low credit risk. We do not provide any guarantees which would expose us to credit risk.

Liquidity Risk

Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and longer term.

Interest Rate Risk

Our interest rate risk arises primarily from interest-bearing bank loans. The majority of our interest-bearing financial instruments at fixed interest rates as of December 31, 2020, 2021 and 2022 and June 30, 2023 are bank loans and lease liabilities, and the change of interest rate does not expose us to significant interest risk.

Foreign Exchange Risk

We were not exposed to significant foreign exchange risk as of December 31, 2020, 2021 and 2022. As of June 30, 2023, our foreign exchange risk primarily arose from cash and cash equivalents denominated in Hong Kong dollars of approximately HK$4.9 million associated with the grant of certain restricted shares.

DIVIDENDS

During the Track Record Period, our Company did not declare or pay any dividend. In 2021, Changjiu Jinfu, a wholly owned subsidiary of our Company, declared and paid dividends of RMB22.0 million to its then shareholders.

We do not have a specific dividend policy or a predetermined dividend payout ratio. The decision to pay dividends in the future will be made at the direction of our Board and will be based on our profits, cash flows, financial condition, capital requirements and other conditions that our Board deems relevant. The payment of dividends may be limited by other legal restrictions and agreements that we may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2023, our Company did not have any distributable reserves.

[REDACTED] EXPENSES

Our [**REDACTED**] expenses include [**REDACTED**] commission, professional fees and other fees incurred in connection to the [**REDACTED**] and the [**REDACTED**]. [**REDACTED**] expenses to be borne by us are estimated to be RMB[**REDACTED**] (including [**REDACTED**] commission and fees of approximately RMB[**REDACTED**], and non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**], which consist of accounting and legal fees and expenses of approximately RMB[**REDACTED**] and other fees and expenses of approximately RMB[**REDACTED**], assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**], and assuming no [**REDACTED**] are issued pursuant to the [**REDACTED**]), of which RMB[**REDACTED**] is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. [**REDACTED**] expenses accounted for approximately [**REDACTED**]% of our gross [**REDACTED**]. During the Track Record Period, the [**REDACTED**] expenses charged to profit or loss were RMB[**REDACTED**] (HK$[**REDACTED**]). RMB[**REDACTED**] is expected to be charged to our consolidated statements of profit or loss for the remaining period ending December 31, 2023. The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the [**REDACTED**] on the net tangible assets of our Group attributable to owners of our Company as of June 30, 2023 as if the [**REDACTED**] had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the net tangible assets attributable to owners of our Company had the [**REDACTED**] been completed as of June 30, 2023 or at any future date. No adjustment has been made to reflect any trading results or open transactions of our Group entered into subsequent to June 30, 2023. See Appendix II to this document for the details about the unaudited pro forma statement of adjusted net tangible assets of our Group.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial, trading position or prospects since June 30, 2023, being the latest date of our consolidated financial statements, up to the date of this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.