
INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this prospectus were extracted from the report prepared by CIC, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged CIC to prepare the CIC Report, an independent industry report, in connection with the Global Offering. The information from official government sources has not been independently verified by us, or any of our directors and advisors, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. For discussions of risks relating to our industries, see “Risk Factors — Risks Related to Our Business and Industry.”

SOURCES OF INFORMATION

We commissioned CIC, an independent market research and consulting company that provides industry consulting services, commercial due diligence, and strategic consulting to conduct a detailed research on and analysis of the automotive service market in China. We have agreed to pay a fee of RMB1,450,000 to CIC in connection with the preparation of the CIC Report. We have extracted certain information from the CIC Report in this section, as well as in “Summary,” “Risk Factors,” “Business,” “Financial Information,” and elsewhere in this document to provide our potential investors with a more comprehensive presentation of the industries where we operate.

During the preparation of the CIC Report, CIC performed both primary and secondary research, and obtained knowledge, statistics, information, and industry insights on the industry trends of the automotive service market in China. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources, such as the PRC National Bureau of Statistics and various industry associations. The information and data collected by CIC has been analysed, assessed, and validated using CIC’s in-house analysis models and techniques.

The CIC Report was compiled based on the following assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period, (ii) related key industry drivers are likely to continue driving growth in automotive service market during the forecast period, including the continually climbing car parc, gradually ageing vehicles, and the changing consumer behaviour, and (iii) there will be no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way during the forecast period.

Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the CIC Report that may qualify, contradict or have a material impact on the information.

OVERVIEW OF CHINA’S PASSENGER VEHICLE INDUSTRY

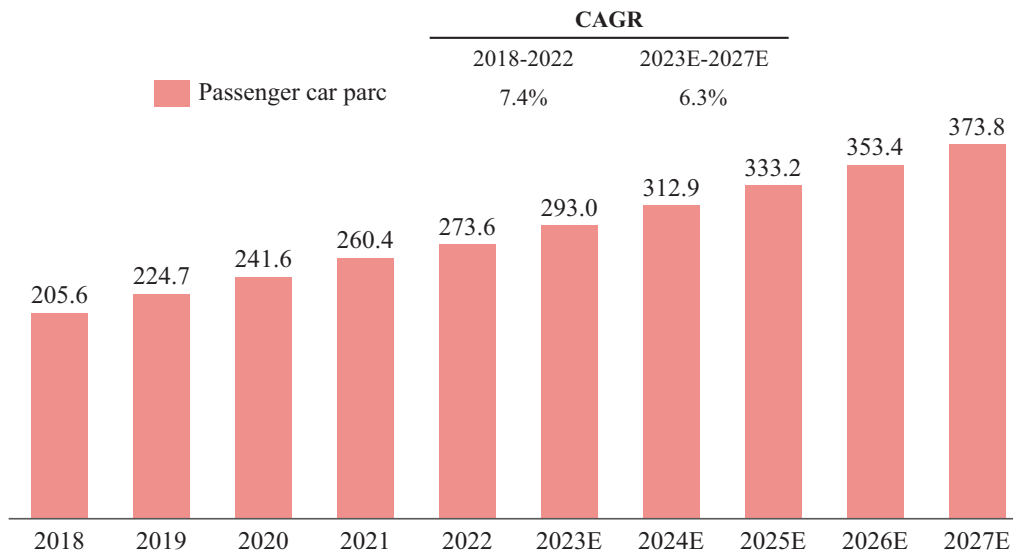
China has become the largest automotive market in the world in terms of car ownership, with passenger car parc reaching 273.6 million as of 31 December 2022. However, passenger car parc was only recorded as 194 per thousand capita, lower than that of developed countries such as the United States (769 per thousand capita) and EU member countries (563 per thousand capita), indicating substantial growth upsides. According to the CIC Report, China has achieved the highest new

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vehicle sales globally for over 10 consecutive years. China's passenger car parc is expected to continue to increase, and further to reach 373.8 million by 2027.

Passenger car parc, China, 2018-2027E

Million Units



Source: CIC Report

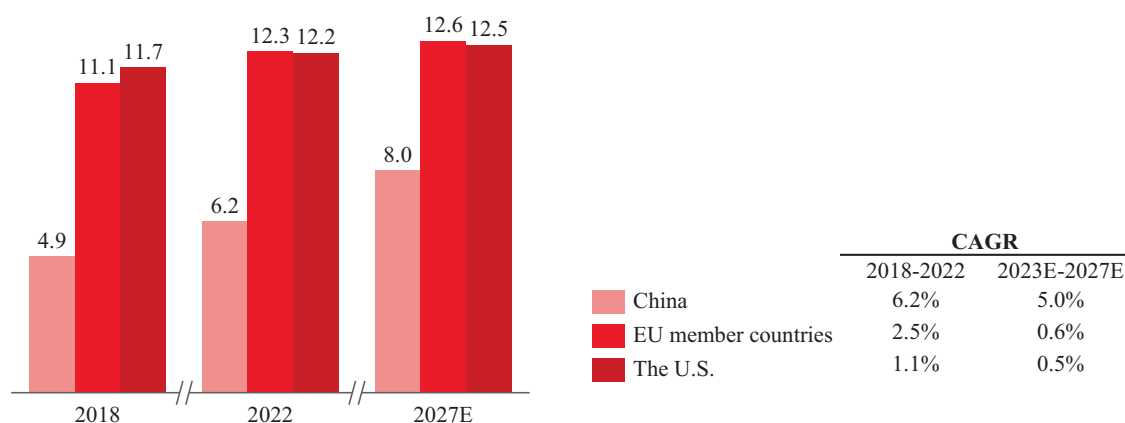
With the steady growth of the total parc of passenger vehicles in China, the composition of passenger cars by vehicle age has been gradually changing. Aged vehicles generally require relatively more automotive services, especially repair and maintenance services, compared to new vehicles. The average vehicle age in China has increased from 4.9 years in 2018 to 6.2 years in 2022, and is expected to reach 8.0 years by 2027, compared to 12.5 years in the United States and 12.6 years in EU member countries in the same year, indicating further room for the growth of vehicle age in China. The growing parc of passenger vehicles and average vehicle age in China indicates a rising demand for automotive services.

Currently, according to the Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》), there is no compulsory retirement age for private passenger vehicles including ICEVs. Private passenger vehicle aged over 15 years but within 600 thousand kilometres in total mileage, is allowed to operate on the road as long as it is in good condition and is qualified through annual vehicle inspection. Moreover, the issue of Notice on Several Measures to Realise Automobile Circulation and Expand Automobile Consumption (《關於搞活汽車流通擴大汽車消費若干措施的通知》) in July 2022, demonstrates the government's efforts in boosting the vitality of used car market, which further supports the proper circulation and use of aged cars.

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Average vehicle age of passenger car, China/the U.S./EU member countries, 2018-2027E

Years



Source: CIC Report

Car ownership in China is fast growing especially in tier-2 and below cities and counties, with total car parc growing at 7.4% CAGR from 2018 to 2022. Nonetheless, tier-2 and below cities and counties still has the lowest car ownership penetration of 179 per 1,000 people as of 31 December 2022, compared with 217 and 279 per 1,000 people respectively in tier-1 and new tier-1 cities. Further, the majority of passenger cars in China is located in tier-2 and below cities and counties. With 273.6 million total car parc as of 31 December 2022, tier-2 and below cities and counties accounted for 75.5% of total passenger cars in China, representing huge market potential for automotive service market.

	Car parc ⁽¹⁾ (mm)	Car parc per 1,000 persons ⁽¹⁾	Car parc 2018-22 CAGR
Tier-1 cities	16.5	217	6.0%
New Tier-1 cities	50.6	279	9.8%
Tier-2 and below cities and counties	206.5	179	7.0%
Total	273.6	194	7.4%

Note:

(1) As of 31 December 2022.

Source: CIC Report

OVERVIEW OF CHINA'S AUTOMOTIVE SERVICE INDUSTRY

Definition and Categorisation of Automotive Service

Automotive service is a pivotal part of consumer's demand throughout a vehicle's lifecycle, which includes auto repair and maintenance, car wash and detailing, and installation-required

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accessories. The automotive service market in China includes services provided to all passenger vehicles in operation, and the total market demand of automotive services is directly related to factors such as total passenger car parc and average vehicle age. The diagram below illustrates the definition and categorisation of automotive service industry in China:

Categorisation of Automotive Service in China

<i>Auto repair and maintenance service</i>	Refers to the process of using technical methods to restore the normal function of vehicles or to prolong the useful life of vehicles through preventive maintenance: <ul style="list-style-type: none">• Regular maintenance, including air and fuel filters replacement, motor oil and coolant replacement and headlights replacement.• Major maintenance, including spark plug and coil replacement, timing belt and accessory belt maintenance, and transmission repair.• Maintenance for tire and chassis parts such as brake pad and shock absorbers and wheel alignment.• Dent repair and painting services.
<i>Car wash and detailing service</i>	Refers to systematically performing operations to keep the interior and exterior body of the vehicle in better conditions, mainly cosmetic with no mechanical effect, primarily including: <ul style="list-style-type: none">• Exterior cleaning and detailing services, including car wash, waxing and polishing.• Interior cleaning and detailing services, including undercarriage wash and interior waxing and air conditioning unit cleansing.• Exterior modification services, including paint protection films and spray paint, as well as performance trim.
<i>Installation-required accessories</i>	Refer to auto interior accessories that require installation service, which include, amongst others, windshield wiper replacement, car ornaments and in-vehicle electronic products such as car DVR (Digital Video Recorder), GPS navigator and speaker system.

Source: CIC Report

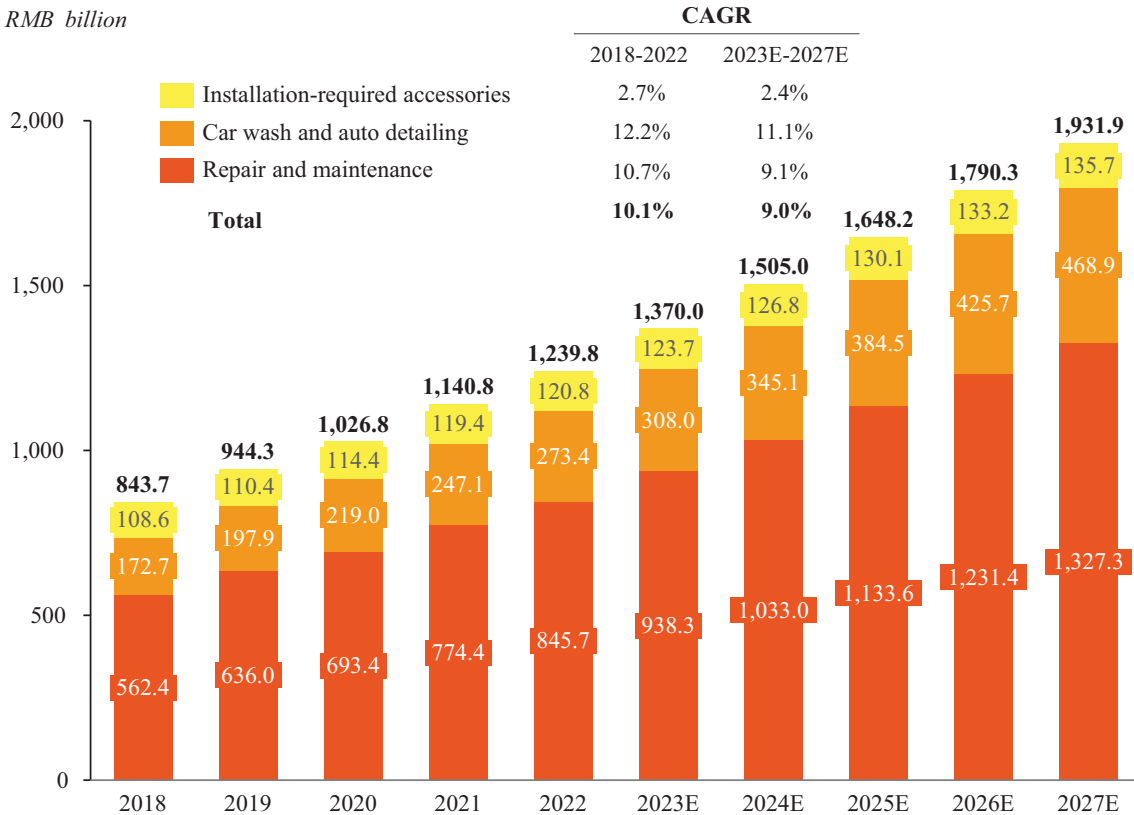
Market Size of Automotive Service in China

Driven by the large and continually increasing car parc as well as the ageing fleet, China's automotive service market grew at a CAGR of 10.1% from 2018 to 2022 and has become one of the fastest growing auto service markets globally. According to the CIC Report, China's automotive service market size in terms of GMV was RMB1,239.8 billion in 2022, and is forecasted to reach

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RMB1,931.9 billion in 2027, with a CAGR of 9.0% from 2023 to 2027. The chart below presents the market size of China’s automotive service for the periods indicated.

Market size of automotive service market, in terms of GMV, by service type, China, 2018-2027E



Source: CIC Report

Characteristics of China’s Automotive Service Market

China’s automotive service market enjoys high growth potential and presents unique characteristics, calling for a more efficient, convenient, and differentiated automotive service model:

- **China is reaching a “tipping point” of automotive service demand**

Generally, expenditure on automotive service starts to increase significantly when the vehicle age rises to above 6 years, which is the tipping point in a vehicle’s typical lifecycle. In 2022, the average vehicle age in China reached 6.2 years, significantly less than 12.2 years for United States and 12.3 years for EU member countries. Meanwhile, annual average expenditure of car owners on automotive service in China was approximately US\$650.6 per car, lower than US\$1,349.1 in the United States and US\$875.1 in EU member countries. Together with the growing car parc, the automotive services market in China has significant potential for future growth.

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- ***Do-It-For-Me is the mainstream in China’s automotive service market***

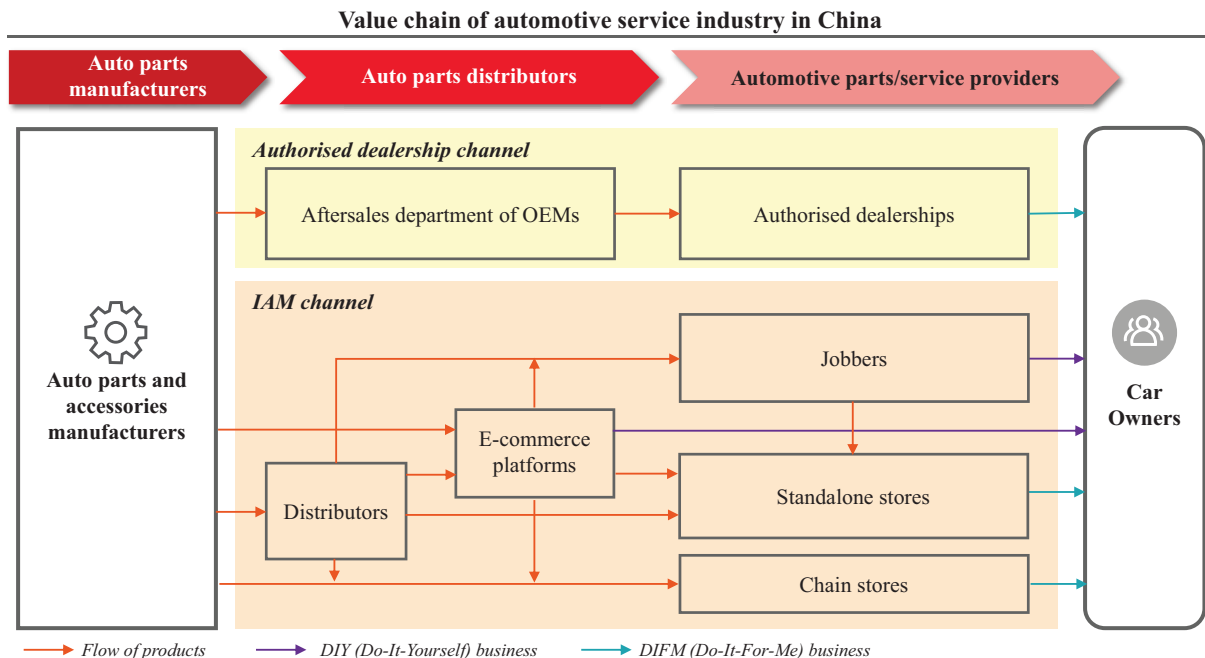
The automotive service business can be divided into Do-It-For-Me, or DIFM, and Do-It-Yourself, or DIY, models. In the DIY business, consumers purchase auto parts from auto parts retailers and install auto parts themselves. While in the DIFM business, consumers go to outlets of automotive service providers and pay for auto parts and their professional services. Due to high population density and lack of necessary resources, including garage space and tools, as well as basic knowledge on automobile and auto repair, Chinese car owners are more predisposed to using one-stop-shop DIFM services to address their automotive service needs. As a result, Chinese customers heavily rely on the installation services and expertise provided by auto repair stores.

- ***Low store productivity in China implies ample room for efficiency improvement***

As of 31 December 2022, there were approximately 896 thousand automotive service stores in China, and only 7.8% of them were chain operated. On average, an automotive service store in China only served 336 passenger cars in 2021, much lower than its counterparts in the United States and in EU member countries which served 1,205 and 726 passenger cars on average in 2021, respectively. The inefficiency of China’s automotive service stores implies high potential in terms of improvement of operational efficiency and associated value creation.

Value Chain of Automotive Service and Overview of Service Providers in China

The value chain of automotive service in China consists of two channels, the authorised dealership channel and the independent aftermarket service provider channel, or the IAM channel, as illustrated below:



Source: CIC Report

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Authorised dealerships and IAM stores are the main DIFM service providers in China's automotive service markets. In 2022, there were approximately 34 thousand authorised dealerships and 862 thousand IAM stores in China, accounting for 53.6% and 46.4% of China's automotive service market in terms of GMV, respectively. Auto parts that authorised dealerships procured from car OEM's aftersales department generally have higher ex-factory price from manufacturers and are marked up in price by car OEMs. In addition, considering the higher operational cost and expenses to maintain a dealership store, in order to maintain its profitability, authorised dealerships often charge premium price for both auto parts and associated installation services. According to the CIC report, the price of the auto parts and service fee charged by authorised dealerships is approximately 30% and 80% higher, respectively, compared to the parts and service fee charged by IAM stores. Therefore, IAMs with strong supply chain capability that can provide authentic and high-quality automotive products and services with more attractive pricing and are preferred by car owners as compared to authorised dealerships. Warranty is one of the key factors for a car owner to decide whether to go to authorised dealerships or IAM stores. The warranty period from OEMs typically covers three years after the sales of new passenger vehicles, after which, car owners will be more likely to choose IAM stores for more convenient location choices and affordable services. According to the CIC Report, passenger cars with expired warranties in China accounted for 73.6% of the total car parc as of the end of 2022, and the figure is expected to reach 79.1% by the end of 2027. Therefore, the GMV of IAM stores is expected to grow at a higher growth rate than that of authorised dealerships, and account for 58.1% of the automotive service market in terms of GMV by 2027.

The following diagram compares the two types of automotive service providers in China:

Comparison of authorised dealerships and IAM stores		
Dimensions	Authorised Dealerships	Traditional IAM stores
<i>Definition</i>	<ul style="list-style-type: none"> • Auto dealers authorised by OEM to provide 4S services (i.e., sales, service, spare parts and survey) of new car and used car for car owners/buyers 	<ul style="list-style-type: none"> • Automotive service providers who are independent of OEMs and provide various automotive services including auto repair and maintenance, car wash and detailing services, and installation-required accessories
<i>Products and services</i>	<ul style="list-style-type: none"> • Cover automotive services including warranty claim and insurance claim • Single authorised dealership may specialise only in limited vehicle brands of an OEM 	<ul style="list-style-type: none"> • Provide automotive services to car owners of various car makes and models, and tend to have more SKUs

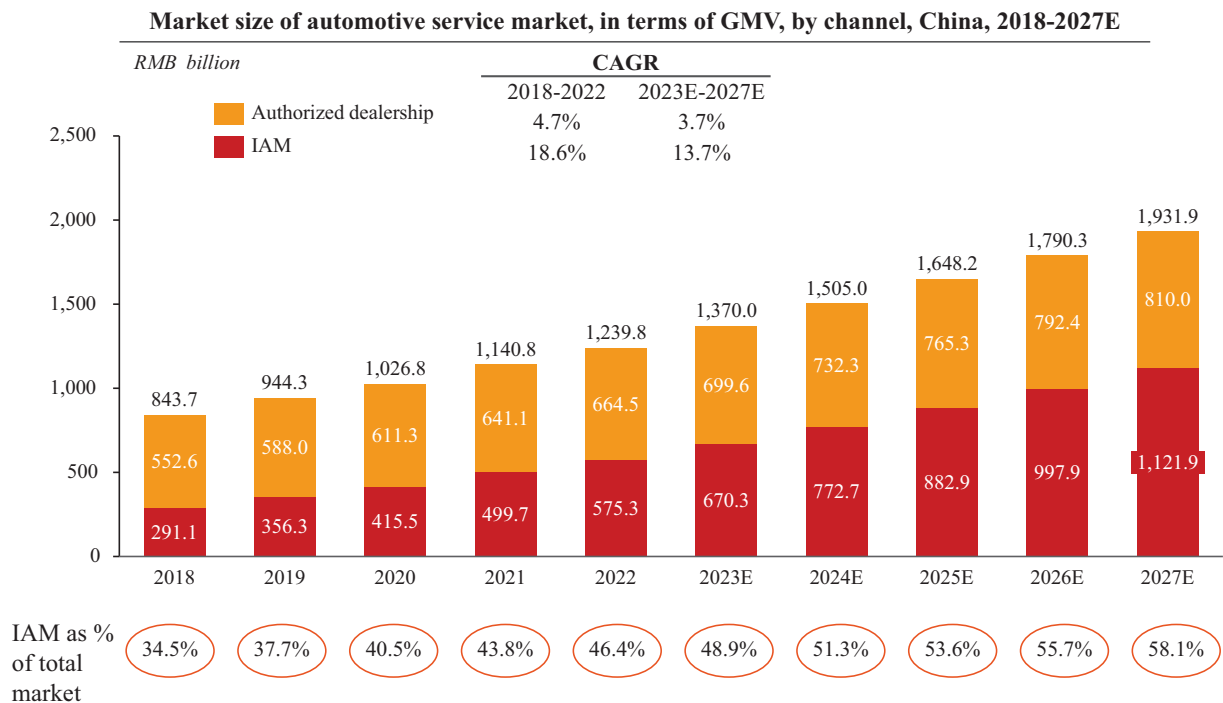
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Comparison of authorised dealerships and IAM stores

Dimensions	Authorised Dealerships	Traditional IAM stores
<i>Service quality and price</i>	<ul style="list-style-type: none"> Provide better service experience from trained and qualified technicians Charge relatively higher prices 	<ul style="list-style-type: none"> Relatively lower service standardisation Charge more reasonable prices
<i>Coverage</i>	<ul style="list-style-type: none"> Around 34 thousand stores in China Lower store density and usually located in the suburban areas 	<ul style="list-style-type: none"> Around 862 thousand stores in China Higher store density covering both urban and suburban areas, widely spread nationwide

Source: CIC Report

The following diagram presents the market size of China's automotive service by channel:



Source: CIC Report

Market Drivers of China's Automotive Service Market

- Large and continually increasing car parc.** With increasing purchasing power and overall consumption upgrade, China's passenger car parc is expected to continue to increase to 373.8 million in 2027. The increasing car parc, especially in tier 2 and below cities and

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counties where public transportation is less developed, leads to increasing vehicle use frequency, as well as total mileage travelled and automotive wear and tear.

- ***Gradually ageing fleet and rising expenditure per car on automotive services.*** With passenger cars gradually ageing in China, the average expenditure per vehicle on automotive service is expected to continue to rise, and there will be an increasing number of passenger vehicles out of OEM warranty coverage, which will drive the demand for automotive services from IAM stores. The annual expenditure per car on automotive service from IAM stores in China is expected to increase from RMB2,102.3 in 2022 to RMB3,001.0 in 2027, representing a CAGR of 7.4%.
- ***The need for a more diversified, omni-channel approach to automotive service.*** Given the rapid development of automotive service market in China, there will be increasing demands for more personalised and customised needs, which will drive the growth of segments including decorative products and car detailing services. In addition, with the share of the young car owners (30 years of age or lower) increasing from approximately 20% in 2010 to over 40% in 2020, car owners in China are increasingly tech savvy and prefer omni-channel approaches to make purchases throughout their ownership journey. As such, more diversified DIFM service is expected to play a more prominent role in China's automotive service market. Expertise and experience in the automotive repair and installation is also sought after.

Challenges in China's Automotive Service Market

Despite the enormous growth potential, various challenges exist in China's automotive service market:

Pain points of car owners:

- ***Undersupply of quality service stores.*** The selection of automotive service providers that offer a combination of convenient, trustworthy and affordable products and services for car owners in China is limited. For instance, when having their cars serviced, car owners may face long waiting time for service completion or have to pay a premium for products they need. The service stores may lack skilled technicians to address the specific car problems and may take an extended amount of time to address and may not be able to address the issue in one go.
- ***Limited service coverage.*** Authorised dealerships could only offer a limited range of services covering one or several brands of a single OEM at a price premium. Moreover, due to the limited number of stores, especially in the tier 2 and below cities and counties, authorised dealership stores in China are sparsely distributed, and some are located in suburbs, making the service process more inconvenient for car owners.

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- ***Low degree of trust.*** There is lack of customer trust in the products and services offered by IAM stores, despite their numerous stores. Only 4.8% of the IAM stores in China are chain operated. IAM stores typically feature an undersupply of authentic auto parts and inconsistent service standards. IAM stores and technicians tend to maximise short-term sale of services and products, given the lack of continuous feedback and deep customer relationships. Often times, the demand for service is non-discretionary, and customers do not have good knowledge of the products needed. Such information asymmetry may result in customers' distrust and unpleasant experience.
- ***Lack of seamless and integrated online and offline service.*** Given the proliferation and reliance on local e-commerce channel, Chinese customers are generally more accustomed to internet service that can connect their online and offline experience seamlessly when addressing their various daily needs. However, most automotive services providers only offer offline services without convenient online accesses such as online booking, online diagnosis, bringing subpar user experience for car owners.
- ***Insufficient supply in lower tier cities.*** With increasing level of disposable income, consumption upgrade, and extension of highway network, there is increasing demand for standardised and quality automotive services in lower tier cities. Specifically, the authorised dealership stores are often sparsely located in lower-tier cities which makes them less accessible for car owners, while the small local IAMs suffer from certain players' offering of counterfeit products and subpar services.

Pain points related to the supply chain:

- ***Multi-layered distribution network combined with information asymmetry.*** Massive SKUs and numerous automotive service stores nationwide have resulted in a multi-layered and inefficient distribution network in China. Such long and inefficient distribution network leads to opaque pricing, inauthentic products, and numerous unmet customer needs. Given the distance to customers, manufacturers may not receive the most accurate demand picture of their products.
- ***Inefficient and complex infrastructure.*** The supply chain of the automotive service market in China is characterised by delivery inefficiencies and low inventory turnover. Automotive service generally involves vast, complicated and heavy auto part SKUs with low levels of digitalisation. Paired with scattered warehouse locations, it is not uncommon for auto part products to circulate nationwide for extended periods of time before reaching the end customer.

Integrated Online and Offline (O&O) Automotive Service Model

Integrated online and offline automotive service model combines the best of both the online platforms and offline stores to deliver service to car owners. In China, online interfaces and offline

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footprint are fundamental to creating loyal and satisfied customer base. Online automotive service refers to a situation in which customers purchase the products from online channels and then go to offline stores for professional services. Online platforms provide large customer traffic and data insights to offline operations. Offline stores cooperate with the centralised supply chain system, adopt a uniform digitalised customer management and order system. The online and offline integrated model also enables rigorous and consistent standards in technician training to provide better customer experience.

Integrated O&O automotive service model

<i>Online</i>	<i>Offline</i>
<ul style="list-style-type: none">• Abundant selection of products with transparent pricing• Accurate matching for auto parts and car models• Convenient online searching, booking, purchase and payment experience• Comprehensive maintenance reports and detailed quotations• Ability to manage the whole lifecycle of vehicles through the online channel• Ability to live monitor repair process	<ul style="list-style-type: none">• Standardised process• Transparent and trustworthy service• Wide store coverage of locations with close proximity to customers• Efficient supply chain• Well-qualified technicians• Strictly controlled store management

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Competitive Landscape of China's Automotive Service Market

Among approximately 680 thousand automotive service providers in China, the Company ranked first in terms of number of stores as of 31 March 2023. Among IAM stores in China, the Company ranked first in terms of both number of stores as of 31 March 2023 and annual automotive service revenue in 2022. The following tables set forth the ranking of automotive service providers in China:

Ranking of all automotive service providers in terms of number of stores

Ranking ⁽¹⁾	Automotive service providers	Positioning	Number of stores ⁽²⁾ as of 31 December 2020	Number of stores ⁽²⁾ as of 31 December 2021	Number of stores ⁽²⁾ as of 31 December 2022
1	TUHU	Integrated O&O automotive service provider	2,488	3,853	4,653
2	Shell Helix Auto Care ⁽³⁾	Traditional IAM	~2,000	~2,800	~4,000
3	Tmall Auto Care ⁽⁴⁾	Integrated O&O automotive service provider	~550	~1,800	~2,000
4	Tyreplus ⁽⁵⁾	Traditional IAM	~1,600	~1,700	~1,600
5	Autoyong ⁽⁶⁾	Traditional IAM	~1,200	~1,500	~1,500
6	JD Auto Care ⁽⁷⁾	Integrated O&O automotive service provider	~1,200	~1,480	~850

Note:

- (1) In terms of number of stores. Data of the non-listed companies in this table was estimated by CIC based on expert interviews, industry public articles and other reputable third party's sources.
- (2) Including self-operated stores and franchised stores
- (3) Shell Helix Auto Care belongs to a public multinational energy and petrochemical company and provides automotive fuel and motor oil in China and adopts franchise model providing automotive services
- (4) Tmall Auto Care is an integrated O&O automotive service provider launched in late 2019 and adopts a franchise model
- (5) Tyreplus is an automotive service provider established in 2008 and adopts a franchise model
- (6) Autoyong is an automotive service provider established in 2015 and adopts a franchise model
- (7) JD Auto Care is an integrated O&O automotive service provider launched in 2018 and adopts a franchise model

Source: CIC Report

Ranking of all automotive service providers in China, in terms of automotive service revenue in 2022

Ranking ⁽¹⁾	Automotive service providers	Positioning	Automotive service revenue ⁽³⁾ in 2022 (RMB billion)	Market share ⁽⁴⁾
1	Zhongsheng Group (00881.HK)	Authorised dealership	24.6	2.0%
2	China Grand Auto (600297.SH)	Authorised dealership	~14.2	1.1%
3	TUHU	Integrated O&O automotive service provider	11.5	0.9%
4	Yongda Auto (03669.HK)	Authorised dealership	~10.1	0.8%
5	LSH Auto China ⁽²⁾	Authorised dealership	~10.0	0.8%

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Notes:

- (1) In terms of automotive service revenue in 2022 (including authorised dealerships and IAM). Data of the non-listed companies in this table was estimated by CIC based on expert interviews, industry public articles and other reputable third party's sources.
- (2) A privately owned auto dealership group, establishing its automotive business in mainland in 1993
- (3) Revenue from automotive services includes auto maintenance and repair, car wash and detailing, installation-required accessories and other related services, but excludes auto finance and insurance
- (4) Automotive service revenue as % of the total automotive service market in China in 2022

Source: CIC Report

Ranking of IAM stores in China's automotive service market in terms of automotive service revenue in 2022

Ranking ⁽¹⁾	IAM	Positioning	Automotive service revenue in 2022 (RMB billion)	Market share ⁽²⁾
1	TUHU	Integrated O&O automotive service provider	11.5	0.9%
2	Shell Helix Auto Care	Traditional IAM	~3.2	0.3%
3	Tyreplus	Traditional IAM	~2.3	0.2%
4	Tmall Auto Care	Integrated O&O automotive service provider	~1.6	0.1%
5	JD Auto Care	Integrated O&O automotive service provider	~1.3	0.1%

Note:

- (1) In terms of automotive service revenue in 2022. Data of the non-listed companies in this table was estimated by CIC based on expert interviews, industry public articles and other reputable third party's sources.
- (2) Automotive service revenue as % of the total automotive service market in China in 2022

Source: CIC Report

NEV TRENDS IN THE AUTOMOTIVE SERVICE MARKET IN CHINA

Gradually rising NEV parc in China

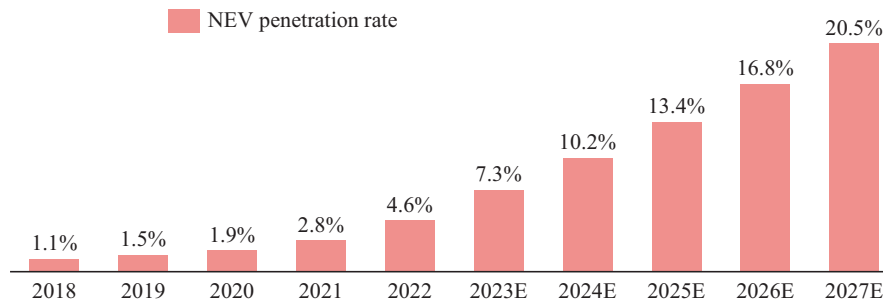
Driven by the growing environmental awareness of consumers, favourable government policies, rapid advancement of NEV technology and the increasing acceptance of NEVs, China's NEV market has been developing quickly in recent years. In 2022, the annual sales volume of NEVs in China has reached 6.5 million, compared to 3.3 million in 2021. According to the CIC Report, penetration rate of NEV in total sales of new passenger vehicle is expected to continue rise in the forthcoming years.

Nevertheless, the NEV passenger car parc in China remains a relatively small portion of the total passenger car parc. NEV passenger car parc in China reached 12.6 million in 2022 and accounted for 4.6% of the total passenger car parc. By 2027, the penetration rate of NEV passenger car parc in the total passenger car parc is expected to reach 20.5%, according to the CIC Report. NEVs can be categorised into Battery Electric Vehicles (BEVs) and Plug-in Hybrid Electric Vehicles

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(PHEVs), while non-NEVs are typically called Internal Combustion Engine Vehicles (ICEVs). The following diagram presents the NEV penetration rate in China and the breakdown of passenger car parc by ICEV and NEV for the periods indicated.

NEV penetration rate in passenger car parc, China, 2018-2027E



In millions	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Passenger car parc	205.6	224.7	241.6	260.4	273.6	293.0	312.9	333.2	353.4	373.8
ICEV	203.3	221.3	237.1	253.0	261.0	271.6	281.0	288.7	294.0	297.2
NEV	2.3	3.4	4.5	7.4	12.6	21.4	31.9	44.5	59.4	76.6
BEV	1.9	2.8	3.7	6.1	10.4	17.2	25.8	36.4	48.8	63.0
PHEV	0.4	0.6	0.8	1.3	2.2	4.2	6.1	8.1	10.6	13.6

Note: figures may not add up to the total number after roundoff. PHEV segment includes plug-in hybrid electric vehicles and extended range electric vehicles.

Source: CIC Report

The NEV trend is bringing opportunities for automotive service market

Among NEVs, PHEVs require maintenance of both engine and battery as they use both as the power system, while BEVs require less maintenance work on its power systems compared to ICEVs as BEVs fully replace the internal combustion engine with the battery power system. The following table illustrates the maintenance and repair services required for NEVs and ICEVs.

Comparison of maintenance and repair services for NEV and ICEV

Categories		Battery capacity test and servicing	Electrical system replacement	Motor oil change	Oil/fuel/air filter replacement	Spark plug replacement	Brake callipers replacement	Chassis maintenance	Tire replacement	Other wearing parts
NEV	BEV	✓	✓	×	×	×	✓	✓	✓	✓
	PHEV	✓	✓	✓	✓	✓	✓	✓	✓	✓
ICEV	ICEV	×	×	✓	✓	✓	✓	✓	✓	✓

Source: CIC Report

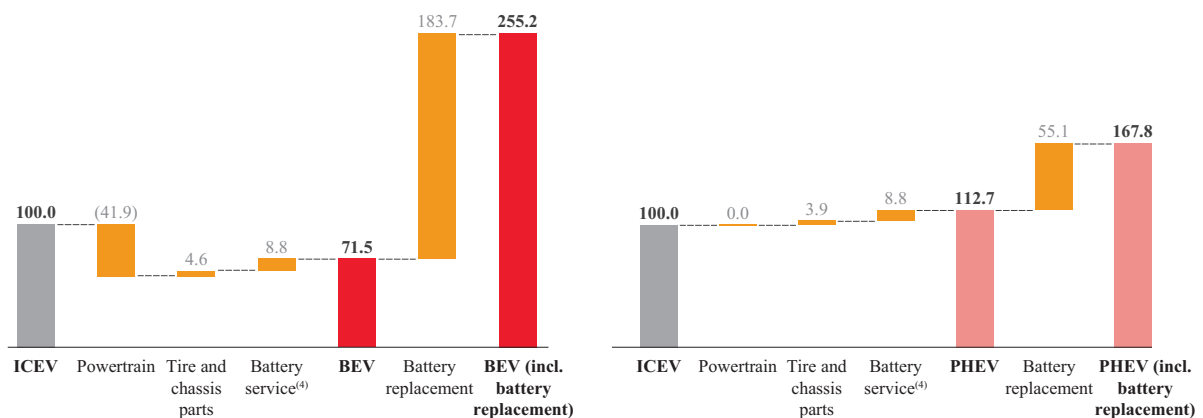
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Compared to ICEVs, other than maintenance for engine, PHEVs require additional maintenance services for battery power system including battery capacity test and servicing and electrical system replacement. Therefore, the annualised expenditure on regular maintenance and repair for a PHEV is approximately 13% higher than that for an ICEV according to the CIC Report.

Unlike ICEVs and PHEVs, BEVs do not require maintenance and repair services for the engine, such as motor oil change, filter replacement, and spark plug replacement. However, as an offsetting factor, with the large battery packs, the average weight of a BEV is usually higher than that of an ICEV, leading to more wear and tear of tires and the suspension, both of which are key products and services that we offer across our network of stores. Furthermore, given battery packs account for 30-40% of BOM costs, it is expected that additional services will be created, including but not limited to battery inspection, balancing, and testing.

With regular maintenance, the lifecycle of battery packs in NEVs is around eight years, after which the battery packs may need to be replaced. Therefore, from the perspective of the entire lifecycle for NEVs, the cost for battery pack replacement will become considerably significant compared to the total expenditure on maintenance and repair services.

Comparison of annualised expenditure on regular maintenance and repair services over the entire lifecycle of a vehicle, by ICEV/PHEV/BEV (Assume the annualised expenditure for an ICEV to be 100)^{(1),(2),(3)}



Note:

- (1) Regular maintenance and repair services include maintenance and repair for powertrain, braking system, tires and other wearing parts, and exclude collision repair;
- (2) Annualised expenditure is measured based on a typical ICEV/PHEV/BEV with an average MSRP of approximately RMB200 thousand during the first five years of the vehicle life;
- (3) Annualised battery replacement expenditure is calculated as battery pack replacement expenditure divided by the entire lifecycle of a vehicle (12 years).
- (4) Battery services refer to battery inspection and testing services, such as battery balancing, battery capacity testing and servicing.

Source: CIC Report

INDUSTRY OVERVIEW

The NEV trend is bringing new opportunities to the automotive service market in China, however, the current authorised dealership model of traditional OEMs and the direct sales and servicing model of emerging NEV brands are still insufficient to serve the promising automotive service market for NEVs. Given the current low NEV parc penetration, NEV brands have been exploring more practical and economical solutions to provide automotive services for NEVs. Traditional OEMs with NEV brands tend to revamp some of their existing authorised dealership stores into NEV service stores, and to collaborate with leading IAM stores with a nationwide network and high level of service standardisation to further enhance their service capabilities, while emerging NEV brands may also collaborate with or fully outsource their automotive services to leading IAM stores to ensure service quality and customer experience, which provides a unique opportunity for leading IAM stores in the backdrop of the NEV trend.

In recent years, the PRC government has promulgated a series of policies in favour of the growth of NEVs, such as government subsidies, exemption from vehicle purchase tax, exemption from license plate restrictions in certain cities and more. To some extent, these policies may affect customer's willingness to purchase and use of ICEVs and as a result, affect the demands for the automotive services for ICEVs. See "Risk Factors — Our business may be affected by advances in automotive technology, such as new energy vehicles, autonomous driving and shared mobility." The emerging NEV industry represents an important market to us and we are actively exploring opportunities to provide dedicated automotive services that are tailored for NEVs. See "Business — NEV New Initiatives" for details.