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You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended 31 December 2019, 2020, 2021 and 2022 and the three months ended March 31, 2023 included in the Accountants' Report set out in Appendix I to this document, together with the respective accompanying notes. Our audited consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this document, including "Risk Factors" and "Business."

OVERVIEW

We are one of the leading integrated online and offline platforms for automotive service in China. By providing a digitalised and on-demand service experience underpinned by our customer-centric model and streamlined supply chain, we directly address car owners' diverse products and service needs, creating a vibrant automotive service platform consisting of car owners, suppliers, automotive service stores and other participants. As of 31 March 2023, we had 100.2 million registered users on our flagship "Tuhu Automotive Service (途虎養車)" app and online interfaces. We had 17.1 million transacting users in the last twelve months ended 31 March 2023, which increased by 9.9% from 15.5 million for the same period ended 31 March 2022. Our average MAU reached 10.2 million in the three months ended 31 March 2023, making our platform the largest car owner community amassed by automotive service providers in China, according to the CIC Report. Our growing service network of over 4,700 Tuhu workshops and over 19,000 partner stores spans across the entire country, covering a majority of prefecture-level cities.

Our platform serves most of the passenger vehicle models sold in China, fulfilling a wide spectrum of automotive service demands ranging from tires and chassis parts replacement to auto maintenance, repair, detailing, and more. By bringing sporadic automotive service demands onto one platform, customer engagement is significantly increased as compared to the traditional offline automotive service model that is highly dependent on localised service demands.

We have developed an automotive service technical support system along the automotive service industry chain that includes parts-matching big-data platform, warehouse management system, transportation management system, order management system, store management system, and technicians support and management system.

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A flexible and extensive fulfilment infrastructure is critical to the success of our platform. We have constructed a nationwide warehousing and logistics system with a combination of self-operated infrastructure and third-party service providers. As of 31 March 2023, we operated 39 regional distribution centres, or RDCs, and 267 front distribution centres, or FDCs. Our logistics solutions cover more than 300 cities in China as of 31 March 2023 and our RDCs supported a monthly average of 2.7 million tires and 13.1 million other auto parts received and shipped in the three months ended 31 March 2023, respectively.

We generate our revenue mainly by providing authentic auto products and high quality services through our online interfaces and offline service network. Our total revenue increased by 24.3% from RMB7.0 billion in 2019 to RMB8.8 billion in 2020, further increased by 33.9% to RMB11.7 billion in 2021, and slightly decreased to RMB11.5 billion in 2022. Our total revenue increased by 10.0% from RMB3.0 billion in the three months ended 31 March 2022 to RMB3.3 billion in the same period of 2023. For the years of 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, our gross profit was RMB523.4 million, RMB1.1 billion, RMB1.9 billion, RMB2.3 billion, RMB532.9 million and RMB789.8 million, respectively.

We recognised fair value loss of convertible redeemable preferred shares of RMB1.9 billion, RMB3.0 billion, RMB4.4 billion, RMB1.3 billion, RMB342.0 million and RMB298.0 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively, which is due to the increases in the fair value liabilities of our convertible redeemable preferred shares mainly driven by the increases in our valuation. Such fair value loss of convertible redeemable preferred shares led to the increases in our losses during the Track Record Period. Our convertible redeemable preferred shares will be redesignated and reclassified from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing. Changes in fair value of convertible redeemable preferred shares affected our performance significantly during the Track Record Period and may continue to have adverse effect on our results of operations when our valuation continues to increase until conversion into ordinary shares, after which we do not expect to recognise any further loss or gain on fair value changes from convertible redeemable preferred shares and will return to a net assets position. We had a net loss of RMB3.4 billion, RMB3.9 billion, RMB5.8 billion, RMB2.1 billion, RMB609.7 million and RMB278.5 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 January 2023 together with the relevant transitional provisions, have been early adopted by us in the preparation of the historical financial information throughout the Track Record Period. The historical financial information has been prepared under the historical cost convention, except for financial assets or liabilities at fair value through profit or loss which have been measured at fair value.

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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 their judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in note 4 to the Accountants' Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, some of which are outside of our control. These factors include but are not limited to the following:

Our ability to attract and retain customers and enhance user engagement

The growing number of customers is one of the most important drivers of our business growth. Therefore, our results of operations will depend in large part on our continued ability to attract customers, retain them, and serve them over the long term. We attract customers through our online and offline touch points, including our app, website and Weixin Mini-Programme, and offline service network consisting of Tuhu workshops and partner stores.

Our customer base has grown steadily. The below table sets forth our transacting users for the periods indicated.

	For the Year Ended 31 December				For the Twelve Months Ended 31 March
	2019	2020	2021	2022	2023
	<i>(in millions)</i>				
Transacting users	8.6	11.0	14.8	16.5	17.1

We intend to continue to drive customer acquisition by relying on our strong brand recognition, expanding online and offline presence, and effective marketing strategies. Providing outstanding customer services is our highest priority and is the key to establishing a large and loyal customer base. We plan to retain our customers by providing standardised and satisfying products and services, innovative and intuitive functions in our app, and highly efficient delivery of offline services. Our repeat purchase ratio was 62.3% in March 2022.

Our large customer base enables cross selling between our products and services, driving up the overall service demands. In addition to directly driving revenues, our large customer base also helps us attract platform participants such as franchisees and partner stores and enables us to obtain more competitive prices from our suppliers.

Our ability to continue to expand our store network

Stores are an integral part of providing automotive service to our customers. Our results of operations are directly affected by the number of stores in and geographic coverage of our offline

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service network, consisting of Tuhu workshops and partner stores. Higher store density and broader geographical coverage will lead to a more convenient experience for customers which ultimately translates to larger customer base.

Our offline service network also serves as an additional touch point to extend our customer reach. Our expanding presence in the market also enhances our brand image organically, which we believe will further drive reduction in our customer acquisition costs.

As of 31 March 2023, our store network consisted of 4,770 Tuhu workshops and 19,624 partner stores. The below table sets forth our store numbers as of the dates indicated.

	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
Number of Tuhu workshops	1,423	2,488	3,853	4,653	4,770
Number of partner stores	18,743	23,285	31,623	20,870	19,624

We plan to further expand the number and geographic coverage of stores by gradually penetrating into lower-tier markets and increasing the store density in existing markets mainly through expanding the network of franchised Tuhu workshops.

Our ability to optimise business mix

Our results of operations, and in particular, our profitability, are also affected by our business mix. We offer a diversified and expanding portfolio of products and services, such as tires and chassis parts, auto maintenance products and services, and others (mainly consisting of car detailing, accessories, and repairs). The different categories we offer have different margins and growth outlooks. As we introduce and promote new offerings, our overall profitability may vary from period to period as a result of changes in products and services category mix and their respective margin profiles. In addition, our profitability may be impacted by our business-mix related marketing decisions in a particular period as well as promotions that we may extend to our customers in a particular period. Our diversified and expanding offerings of products and services also enable us to provide a convenient automotive service experience catering to the various needs of car owners, driving customer acquisition and retention and increasing cross-selling activities.

Our ability to enhance procurement and supply chain management

Cost of automotive products and services has been a major component of our cost of revenue, accounting for 88.9%, 84.3%, 80.3%, 74.8%, 77.1% and 72.0% of our revenue in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively. Product costs have historically accounted for a substantial majority of cost of automotive products and services. Our profitability is dependent on our ability to control these costs and expenses as a percentage of our revenues, which in turn depends on our ability to effectively manage our supply chain.

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The well-known domestic and global brands we cooperate with enjoy the large demand from our platform and are amenable to offering us authentic automotive products with lower costs. As our business scales, we are able to obtain more favourable terms from suppliers, and enter into exclusive partnerships with suppliers to develop C2M capability and private label products, which help us enhance profitability. In addition, our user data and AI-based data analytics capabilities will help optimise supply chain efficiency. Our scale also helps us optimise our fulfilment expenses.

IMPACT OF COVID-19 ON OUR OPERATIONS

In an effort to control the spread of the COVID-19 pandemic, China took precautionary measures, such as extending the Chinese New Year holiday, travel restrictions, quarantines, remote working, cancellation of public events, and recommendations against travel for leisure, among others. These measures adversely affected our operations and financial performance during the Track Record Period.

The restriction on or advise against travel, including travel for holidays, reduces miles driven, and as a result needs for tire changes, vehicle maintenance, and repairs decreased accordingly. Other precautionary measures such as lockdowns, social-distancing, remote working and generally the fear of contracting the disease made our customers less willing to visit our stores for services or postponed their needs for services. Stores in our network were closed temporarily due to cautionary measures and shortage of labour. For instance, more than 200 Tuhu workshops were closed for the whole month of February 2020. We experienced a sharp decline in the sales of automotive products and services in February 2020. While we still managed to achieve a revenue growth of 24.3% from 2019 to 2020, the growth is slower than expected. Hubei province and Henan province were materially affected by the COVID-19 pandemic in 2020. The Tuhu workshops located in these two provinces only accounted for 10.1% of our total number of Tuhu workshops as of 31 December 2020. The below table sets forth the average monthly in-operation ratios of Tuhu workshops in 2020.

<u>January⁽¹⁾</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
70.4%	28.4%	86.5%	97.3%	97.4%	97.1%	96.5%	96.6%	96.7%	96.5%	96.7%	96.3%

Note:

(1) The Chinese New Year holiday also contributed to the lower ratio in January.

Our network expansion was also affected. While we managed to increase the number of Tuhu workshops and partner stores according to our plan, many of these were opened in the second half of 2020. As these stores were afforded less time to organise their operations and ramp up, their results of operations have been negatively affected. Meanwhile, we have experienced and may continue to experience impacts caused by business disruptions to certain of our suppliers as a result of the COVID-19 pandemic, which have adversely affected our business, financial condition, results of operations and cash flows.

Despite the adverse impact of the COVID-19 pandemic, due to our scale, we exhibited better resilience in difficult times than smaller scale operators, which helped us attract more franchisees.

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The COVID-19 resurgence caused by the Omicron variants since late March 2022 adversely affected our operations in certain cities in China. For example, the average monthly in-operation ratio of our Tuhu workshops in Shanghai was less than 5% in April and May 2022. The average monthly in-operation ratio of our Tuhu workshops in Beijing was around 65% in May 2022. The number of our transacting users decreased from 1.8 million in March 2022 to 1.7 million in April 2022.

The below table sets forth the average monthly in-operation ratios of Tuhu workshops in 2022.

January	February ⁽¹⁾	March	April	May	June	July	August	September	October	November	December
87.2%	78.2%	87.0%	79.6%	83.8%	93.9%	94.0%	93.2%	90.9%	90.6%	84.9%	90.7%

Note:

(1) Lower ratio in February is mainly due to the Chinese New Year holiday.

In December 2022, China began to ease its dynamic zero-COVID policy, and most of the travel restrictions and quarantine requirements were lifted by the end of 2022. There were surges of cases in many cities in December 2022 and January 2023 which caused disruption to our operations. For instance, a large number of our employees were successively infected and on sick leave. The average weekly attendance ratio of staff working at our warehouses dropped to a lowest of 63.8%, which negatively affected our logistics efficiency. There remains uncertainty as to the future impact of the virus. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are highly uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the effectiveness of efforts to contain or treat cases, and future actions that may be taken in response to these developments. We cannot guarantee you, however, that the COVID-19 pandemic will not further escalate or have a material adverse effect on our results of operations, financial position or prospects. For more details, please refer to “Risk Factors — Risks Related to Our Business and Industry — Our business has been and may continue to be adversely affected by the COVID-19 pandemic.”

We currently do not anticipate any material deviation from our development and expansion plan due to the COVID-19 pandemic. We believe that the level of liquidity is sufficient to successfully navigate an extended period of uncertainty. As of 31 March 2023, we had cash and bank balances of RMB4.7 billion.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgements relating to accounting items. The estimates and assumptions we use and the judgements we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgements based on past experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management’s estimates or assumptions and actual results, and we have not made any

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material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgements used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgements, which are important for understanding our financial condition and results of operations, are set forth in detail in notes 3 and 4 to the Accountants' Report in Appendix I to this document.

Significant Accounting Policies

Revenue recognition

Revenue from contracts with customers is recognised when control of services or of goods is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those services or goods.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer.

Automotive products and services

Automotive products and services comprise mainly of sales of automotive product such as tires, automotive parts and maintenance products to individuals and automotive service providers, sales of automotive services such as car wash and detailing services, and sales of bundled tire replacement and comprehensive installation and maintenance services. We provide automotive products and services through our online interfaces and offline stores. We recognise revenue at a point in time when customers take possession of and accept the automotive products and services. For a transaction that contains sale of automotive products or sale of bundled automotive products and services, we recognise revenue on a gross basis as we are the principal in the arrangement that we bear product inventory risk and control the services prior to the transfer to our customer and we are responsible for the acceptability of the products and services, regardless of whether the transaction is fulfilled through self-operated Tuhu workshop, franchised Tuhu workshop or partner store. For a service-only transaction, we recognise revenue on a gross basis when the transaction is fulfilled through self-operated and franchised Tuhu workshop as we control the services prior to the transfer to our customer and we are responsible for the acceptability of the services. We recognise revenue on a net basis when automotive services sold by us was fulfilled through partner stores, as we act as an agent and the partners stores are responsible for the acceptability of the services.

We recognise revenue net of discounts and return allowances. For coupons that are not issued concurrently with the completion of a sales transaction, we recorded such incentives as a deduction

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of revenue when used by customers, except for referral coupons, which are recognised as selling and marketing expenses when customers provide a customer referral. The amount of marketing expenses related to customer referral is insignificant for the periods presented. For coupons issued to customers concurrent with the completion of a sales transaction that can be redeemed for future products or services before expiration (which is generally within 12 months from issue date), we accounted for such coupons as separate performance obligations. Revenue allocated to these coupons is deferred and recognised as the obligation to the customers is satisfied. During the Track Record Period, each of the amount of deferred and recognised revenue for these coupons was immaterial.

We allow for return of products within seven days or 30 days, as applicable. We estimate a provision for product returns based on our historical experience. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, estimated liabilities for return allowances were not significant.

We also sell automotive service vouchers to our key account customers. There are two forms of sales of service vouchers, i.e., pay-by-consumption and prepaid service voucher. The majority of such sales of vouchers are paid by those key account customers in accordance with the actual consumption. Certain sales of vouchers are prepaid where key account customers make bulk purchases of vouchers with non-refundable upfront payment, and the value of prepayment is initially recognised as a contract liability. We recognise revenues from sales of automotive service vouchers when they are redeemed. For prepaid automotive service vouchers, as the vouchers sold at any given point generally expire over the next 12 months and the prepayment is not refundable, we also expect to be entitled to a breakage amount, which is the amount of vouchers that is not expected to be redeemed. The estimated breakage is then recognised as revenue in proportion to the pattern of customer's redemption of the underlying vouchers. We review our breakage estimates at least annually based upon the latest available information regarding redemption and expiration patterns. Revenue from breakage amount was not significant during the Track Record Period.

Franchise services

Franchise services include an upfront franchise fee, monthly fixed management fees and profit-based royalty fees. The upfront franchise and management fees are recognised over the term of the franchise agreements. Franchised stores pay recurring royalty fees, based on a fixed percentage of the franchised stores' monthly profits. The recurring royalty fees are recognised at the time the underlying franchised stores' sales occur. Each franchised store is required to make a deposit, which is fully refundable upon the termination of the franchise agreement.

Advertising services

Advertising services comprise mainly the services where we display our customers' advertisements on our online interfaces and at our offline stores. Revenues are recognised ratably over the contractual advertising display period as it most faithfully depicts the simultaneous consumption and delivery of services.

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Others

Other revenues mainly represent revenues from insurance brokerage and insurance agency services, software-as-a-service (“SaaS”) solutions, sales of new energy vehicles, sales of used cars and used car transaction services. Revenues from SaaS solutions on fixed-period basis are recognised over the term of the agreements. Revenues from SaaS solutions on project basis, revenues from sales of new energy vehicles and revenues from other categories are recognised at a point in time when customers take possession of and accept the products and services.

Share-based payments

We operate share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our employees (including directors) and our consultants receive remuneration in the form of share-based payments, whereby rendering services in exchange for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the dates at which they are granted. The cost of equity-settled transactions with consultants are measured by reference indirectly to the fair values of the equity instruments granted at the dates the counterparty renders services as the fair values of the service received cannot be directly reliably estimated. The fair values of equity instrument granted are determined by an external valuer using a binomial model, further details of which are given in note 39 to the Accountants’ Report in Appendix I to this document.

Convertible Redeemable Preferred Shares

Convertible redeemable preferred shares are designated as financial liabilities at fair value through profit or loss, details of which are included in note 34 to the Accountants’ Report in Appendix I to this document.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from our own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an

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exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial year or period, taking into consideration interpretations and practises prevailing in the countries in which we operate.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the financial year or period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax assets relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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The carrying amount of deferred tax assets is reviewed at the end of each financial year or period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each financial year or period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial year or period.

Deferred tax assets and deferred tax liabilities are offset if and only if we have a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Lease

We assess at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

We apply a single recognition and measurement approach for all leases, except for short-term leases. We recognise lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets. Right-of-use assets are subject to impairment.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments

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(including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by us and payments of penalties for termination of a lease, if the lease term reflects us exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, we use incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases

We apply the short-term lease recognition exemption to our short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Significant Accounting Judgements and Estimates

The preparation of our historical financial information requires management to make judgements, 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.

The key assumptions concerning the future and other key sources of estimation uncertainty as of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Leases — estimating the incremental borrowing rate

We cannot readily determine the interest rate implicit in a lease, and therefore, we use an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that we would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what we “would have to pay”, which requires estimation when no observable

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rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). We estimate the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

We assess whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each of the financial year or period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by us are not traded in an active market and the respective fair values are determined by using valuation techniques, including the option-pricing method and the equity allocation model. Valuation techniques are certified by an independent and recognised international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Key assumptions include the risk-free interest rate, discounts for lack of marketability ("DLOM") and volatility. Further details are set out in note 34 to the Accountants' Report in Appendix I to this document.

Fair value measurement of share-based payments

We have set up 2019 Share Incentive Plan and granted options to our directors, our employees and consultants. The fair values of the options are determined by the binomial option-pricing model at the date of grant to employees and at the date the consultants render services. Significant estimates on assumptions, including the underlying equity value, risk-free rate, expected volatility, and dividend yield, are made by our board of directors. Further details are included in note 39 to the Accountants' Report in Appendix I to this document.

Level 3 of Fair Value Measurement

In respect of the valuation of the financial assets and financial liabilities (including convertible redeemable preferred shares) categorised within level 3 at fair value through profit or loss (the "Level 3 Financial Assets and Liabilities"), with reference to the guidance under the "Guidance Note

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on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 (the "Guidance") applicable to directors of companies listed on the Stock Exchange, our investment and wealth management team adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation and selection on the financial assets without readily determinable fair value; (ii) carefully considered available information in assessing the financial data and assumptions including but not limited to rates of return, terms, risks and conditions; and (iii) engaged independent valuer to appraise the fair value of certain financial assets and liabilities that are significant, provided necessary financial information to the valuer for the valuer to assess our performed valuation procedures and discussed with the valuer on relevant assumptions; and (iv) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable and our financial statements are properly prepared. The details on the fair value measurement of the financial assets and financial liabilities at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key assumptions, including significant unobservable inputs and the relationship of the unobservable inputs to the fair values, are disclosed in note 45 to the Accountants' Report in Appendix I to this prospectus.

The Reporting Accountants performed its works in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKSIR 200") for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole and its opinion on the Group for the Track Record Period as a whole is set out in the Accountants' Report in Appendix I to this prospectus. In relation to the fair value measurement of the financial assets categorized within Level 3 of fair value measurement, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes and disclosure in the Accountants' Report in Appendix I to this prospectus; (ii) discussing with the Company and the Reporting Accountants the valuation methodology, and the key basis and assumptions for the valuation of the financial assets categorized within Level 3 of fair value measurement; and (iii) discussing with the Reporting Accountants to understand the work they have performed in this regard. Having considered the work done by the Directors and the Reporting Accountant and the relevant due diligence conducted by the Joint Sponsors, nothing has come to the Joint Sponsors' attention to disagree with the Directors and the Reporting Accountant in respect of the valuation of such financial assets. In relation to the financial liabilities categorised within Level 3 of fair value measurement, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) interviewing the external appraiser about the assumptions and methodology used for the valuation of the financial liabilities categorised within Level 3 of fair value measurement; (ii) obtaining and inspecting the credentials of the external appraiser to ascertain its expertise and industry experience; (iii) discussing with the Company to understand the key basis and assumptions for the valuation of the financial liabilities categorised within Level 3 of fair value measurement; (iv) discussing with the Reporting Accountants pertaining to the audit procedure conducted in this regard; (v) reviewing relevant notes and disclosure in the Accountants' Report in Appendix I to this prospectus; and (vi) obtaining and reviewing the relevant

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subscription agreements regarding the financial liabilities of the Company. Having considered the work done by the Directors and the Reporting Accountants and the relevant due diligence conducted by the Joint Sponsors, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation performed by the external appraiser on the financial liabilities categorised within Level 3 of fair value measurement.

Impairment testing of goodwill

The carrying amount of goodwill allocated to the cash-generating unit ("CGU") for goodwill impairment testing is as follows:

	As at 31 December				As at 31 March
	2019	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xi'an Jushuohua (note a)	—	14,789	14,789	14,789	14,789
Shanghai Xiangming (note b)	—	—	1,031	1,031	1,031
	—	14,789	15,820	15,820	15,820
	—	14,789	15,820	15,820	15,820

Notes:

- (a) On 31 December 2020, our subsidiary, Shanghai Yangman Consulting Co., Ltd. acquired 64.61% equity interests in Xi'an Jushuohua Automobile Technology Co. Ltd. ("Xi'an Jushuohua") from a third party. The principal activity of Xi'an Jushuohua is automotive products and services.
- (b) On 31 March 2021, our subsidiary, Shanghai Tuju Enterprise Management Consulting Co., Ltd. acquired 100% equity interests in Xiangming (Shanghai) Automotive Technology Service Co., Ltd. ("Shanghai Xiangming") from a third party. The principal activity of Shanghai Xiangming is automotive products and services.

The recoverable amounts of the CGU have been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a 5-year period. Key assumptions used in the calculation are as follows:

As of 31 December 2020

	<u>Xi'an Jushuohua</u>
Annual revenue growth rate for the 5-year period	15.0%-50.0%
Gross profit rate	60.7%-61.5%
Terminal growth rate	2.3%
Pre-tax discount rate	19.98%

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As of 31 December 2021

	<u>Xi'an Jushuohua</u>	<u>Shanghai Xiangming</u>
Annual revenue growth rate for the 5-year period	8.0%-50.0%	10.0%-45.0%
Gross profit rate	61.1%	13.9%-54.6%
Terminal growth rate	2.3%	2.3%
Pre-tax discount rate	19.95%	17.00%

As of 31 December 2022

	<u>Xi'an Jushuohua</u>	<u>Shanghai Xiangming</u>
Annual revenue growth rate for the 5-year period	2.3%-36.0%	2.3%-29.0%
Gross profit rate	60.5%-61.8%	32.4%-50.5%
Terminal growth rate	2.3%	2.3%
Pre-tax discount rate	21.17%	20.83%

As at 31 March 2023

	<u>Xi'an Jushuohua</u>	<u>Shanghai Xiangming</u>
Annual revenue growth rate for the 5-year period	2.3%-35.0%	2.3%-39.6%
Gross profit rate	60.8%-61.5%	32.3%-46.8%
Terminal growth rate	2.3%	2.3%
Pre-tax discount rate	21.05%	22.59%

The expected revenue growth rate and gross profit rates are determined by the management based on past performance and its expectation for market development. The discount rates used are before tax and reflect specific risks relating to the relevant units.

At the end of each year of the Track Record Period, the headroom that the recoverable amount of each CGU exceeds its carrying amount are as follows:

	<u>As at 31 December</u>			<u>As at 31 March</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xi'an Jushuohua	5,199	11,856	3,698	4,425
Shanghai Xiangming	N/A	294	161	337

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We perform the sensitivity analysis based on the assumption that revenue amount or terminal value or the discount rate has been changed. Had the estimated key assumptions during the forecast period been changed, the headroom would be decreased to as follows:

	As at 31 December			As at 31 March
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xi'an Jushuohua				
— Revenue amount decreases by 10%	1,692	7,463	256	1,014
— Terminal value decreases by 10%	1,410	8,700	1,490	2,180
— Pre-tax discount rate increases by 5%	1,193	8,153	1,268	2,043
	As at 31 December			As at 31 March
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shanghai Xiangming				
— Revenue amount decreases by 10%	N/A	109	21	177
— Terminal value decreases by 10%	N/A	64	61	234
— Pre-tax discount rate increases by 5%	N/A	80	59	241

As of 31 December 2020, a 14.82% decrease in estimated revenue amount, a 13.72% decrease in estimated terminal value, a 6.62% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for Xi'an Jushuohua. As of 31 December 2021, a 26.99% decrease in estimated revenue amount, a 37.57% decrease in estimated terminal value, a 18.44% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for Xi'an Jushuohua. As of 31 December 2022, a 10.74% decrease in estimated revenue amount, a 16.75% decrease in estimated terminal value, a 7.85% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for Xi'an Jushuohua. As of 31 March 2023, a 12.91% decrease in estimated revenue amount, a 19.71% decrease in estimated terminal value, a 9.78% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for Xi'an Jushuohua.

As of 31 December 2021, a 15.90% decrease in estimated revenue amount, a 13.99% decrease in estimated terminal value, a 7.03% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for Shanghai Xiangming. As of 31 December 2022, an 11.49% decrease in estimated revenue amount, a 16.07% decrease in estimated terminal value, an 8.16% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for Shanghai Xiangming. As of 31 March 2023, a 20.88% decrease in estimated revenue amount, a 32.74% decrease in estimated terminal value, an

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20.65% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for Shanghai Xiangming.

Our management is of the view that a reasonably possible change in key assumptions would not cause the carrying amount of each of the CGUs to exceed its recoverable amount as of 31 December 2020, 2021 and 2022 and 31 March 2023.

Impairment testing of licence

We perform impairment test of the insurance brokerage licence as of 31 December 2020, 2021 and 2022 and 31 March 2023. The recoverable amount has been determined based on a fair value less costs to sell using discounted cash flow method with cash flow projections from financial budgets approved by senior management covering a 5-year period. Key assumptions used in the calculation are as follows:

	As at 31 December			As at 31 March
	2020	2021	2022	2023
Annual revenue growth rate for the 5-year period	15.0%-50.0%	3.0%-62.0%	2.3%-60.0%	2.3%-53.0%
Gross profit rate	67.2%-69.1%	26.4%-54.0%	38.6%-38.9%	38.7%-43.0%
Terminal growth rate	2.3%	2.3%	2.3%	2.3%
Pre-tax discount rate	18.66%	19.27%	18.80%	18.80%

As of 31 December 2020, 2021 and 2022 and 31 March 2023, the headroom that the recoverable amount of the insurance brokerage licence exceeds its carrying amount of RMB5,132,000, RMB6,432,000, RMB4,932,000 and RMB4,932,000, respectively.

We perform the sensitivity analysis based on the assumption that revenue amount or terminal value or the discount rate has been changed. Had the estimated key assumptions during the forecast period been changed, the headroom would be decreased to as follows:

	As at 31 December			As at 31 March
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
— Revenue amount decreases by 10%	532	1,632	132	72
— Terminal value decreases by 10%	2,954	4,485	3,071	3,023
— Pre-tax discount rate increases by 5%	1,932	3,632	2,332	2,332

As of 31 December 2020, a 11.10% decrease in estimated revenue amount, a 23.56% decrease in estimated terminal value, a 8.42% increase in estimated discount rate, all changes taken in isolation in the calculations, would remove the remaining headroom for the licence. As of

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31 December 2021, a 13.50% decrease in estimated revenue amount, a 33.03% decrease in estimated terminal value, a 12.38% increase in estimated discount rate, all changes taken in isolation in the calculations, would remove the remaining headroom for the licence. As of 31 December 2022, a 10.09% decrease in estimated revenue amount, a 26.05% decrease in estimated terminal value, a 9.96% increase in estimated discount rate, all changes taken in isolation in the calculations, would remove the remaining headroom for the licence. As of 31 March 2023, a 10.15% decrease in estimated revenue amount, a 25.83% decrease in estimated terminal value, a 9.95% increase in estimated discount rate, all changes taken in isolation in the calculations, would remove the remaining headroom for the licence.

Our management is of the view that a reasonably possible change in key assumptions would not cause the carrying amount of the licence to exceed its recoverable amount as of 31 December 2020, 2021 and 2022 and 31 March 2023.

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of profit or loss with line items in absolute amounts and as percentages of our revenue for the periods indicated:

	For the Year Ended 31 December								For the Three Months Ended 31 March			
	2019		2020		2021		2022		2022		2023	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage data)</i>											
	<i>(unaudited)</i>											
Revenue	7,040,361	100.0	8,753,316	100.0	11,724,263	100.0	11,546,851	100.0	2,969,165	100.0	3,264,621	100.0
Cost of revenue	(6,516,954)	(92.6)	(7,673,294)	(87.7)	(9,853,961)	(84.0)	(9,276,669)	(80.3)	(2,436,293)	(82.1)	(2,474,837)	(75.8)
Gross Profit	523,407	7.4	1,080,022	12.3	1,870,302	16.0	2,270,182	19.7	532,872	17.9	789,784	24.2
Other income and gains, net	11,589	0.2	114,528	1.3	121,452	1.0	151,452	1.3	8,857	0.3	17,427	0.5
Operations and support expenses	(216,180)	(3.1)	(308,265)	(3.5)	(654,051)	(5.6)	(627,473)	(5.4)	(166,231)	(5.6)	(139,362)	(4.3)
Research and development expenses	(223,279)	(3.2)	(369,505)	(4.2)	(619,583)	(5.3)	(621,365)	(5.4)	(162,312)	(5.5)	(152,744)	(4.7)
Selling and marketing expenses	(1,040,958)	(14.7)	(1,262,616)	(14.4)	(1,681,131)	(14.3)	(1,542,216)	(13.3)	(378,324)	(12.7)	(421,459)	(12.9)
General and administrative expenses	(197,906)	(2.8)	(193,143)	(2.2)	(351,022)	(3.0)	(399,094)	(3.5)	(99,153)	(3.3)	(95,963)	(2.9)
Fair value changes on financial assets at fair value through profit and loss	8,197	0.1	26,113	0.3	154	0.0	4,594	0.0	3,615	0.1	(193)	(0.0)
Operating loss	(1,135,130)	(16.1)	(912,866)	(10.4)	(1,313,879)	(11.2)	(763,920)	(6.6)	(260,676)	(8.8)	(2,510)	(0.1)
Finance income	41,707	0.6	63,236	0.7	63,504	0.5	56,934	0.5	11,008	0.4	25,414	0.8
Finance costs	(26,397)	(0.4)	(50,530)	(0.6)	(65,696)	(0.6)	(27,875)	(0.2)	(9,286)	(0.3)	(4,901)	(0.2)
Fair value changes of convertible redeemable preferred shares	(1,933,597)	(27.4)	(2,992,664)	(34.2)	(4,441,164)	(37.9)	(1,339,273)	(11.7)	(342,022)	(11.6)	(297,954)	(9.1)
Loss on repurchase of convertible redeemable preferred shares	(363,868)	(5.2)	—	—	—	—	—	—	—	—	—	—
Share of profits and losses of: Joint ventures	—	—	—	—	—	—	(2,985)	(0.0)	—	—	(2,134)	(0.1)
Associates	(691)	(0.0)	(10,791)	(0.1)	(52,744)	(0.4)	(30,530)	(0.3)	(3,511)	(0.1)	5,023	0.2
Loss before tax	(3,417,976)	(48.5)	(3,903,615)	(44.6)	(5,809,979)	(49.6)	(2,107,649)	(18.3)	(604,487)	(20.4)	(277,062)	(8.5)
Income tax expense	(10,302)	(0.2)	(24,594)	(0.3)	(34,822)	(0.3)	(30,666)	(0.2)	(5,237)	(0.1)	(1,470)	(0.0)
Loss for the year/period	(3,428,278)	(48.7)	(3,928,209)	(44.9)	(5,844,801)	(49.9)	(2,138,315)	(18.5)	(609,724)	(20.5)	(278,532)	(8.5)
Attributable to:												
Owners of the parent	(3,428,278)	(48.7)	(3,928,209)	(44.9)	(5,840,577)	(49.8)	(2,136,173)	(18.5)	(608,888)	(20.5)	(278,151)	(8.5)
Non-controlling interests	—	—	—	—	(4,224)	(0.1)	(2,142)	(0.0)	(836)	(0.0)	(381)	(0.0)

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NON-IFRS MEASURES

To supplement our consolidated financial statements, which are presented in accordance with IFRSs, we also use adjusted EBITDA (non-IFRS measure) and adjusted net profit/loss (non-IFRS measure), as additional financial measures, which are not required by, or presented in accordance with, IFRSs. Adjusted EBITDA (non-IFRS measure) represents loss for the year/period excluding income tax expenses, finance income, finance costs, depreciation and amortisation, share-based payment expenses, fair value changes of convertible redeemable preferred shares, loss on repurchase of convertible redeemable preferred shares and listing expenses.

Adjusted net profit/loss (non-IFRS measure) represents loss for the year/period excluding share-based payment expenses, fair value changes of convertible redeemable preferred shares, loss on repurchase of convertible redeemable preferred shares and listing expenses.

We have made the following adjustments consistently during the Track Record Period:

- Share-based payment expenses primarily represent the non-cash employee benefit expenses incurred in connection with our 2019 Share Incentive Plan. Such expenses in any specific period are not expected to result in future cash payments.
- Fair value changes of convertible redeemable preferred shares mainly represent changes in the fair value of the convertible redeemable preferred shares issued by us and relate to changes in our valuation. We do not expect to record any further fair value changes of the convertible redeemable preferred shares after Listing as preferred shares liabilities will be redesignated and reclassified from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing.
- Loss on repurchase of convertible redeemable preferred shares represents repurchase of our convertible redeemable preferred shares as a result of withdrawals by certain investors in 2019. Such expenses are not expected to result in future cash payments.

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The following table reconciles adjusted EBITDA (non-IFRS measure) for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year/period:

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Loss for the year/period	(3,428,278)	(3,928,209)	(5,844,801)	(2,138,315)	(609,724)	(278,532)
Adjusted for:						
Income tax expense	10,302	24,594	34,822	30,666	5,237	1,470
Finance income	(41,707)	(63,236)	(63,504)	(56,934)	(11,008)	(25,414)
Finance costs	26,397	50,530	65,696	27,875	9,286	4,901
Depreciation and amortisation	199,316	238,966	304,517	363,776	87,283	88,311
Share-based payment expenses	95,121	41,533	118,512	219,339	52,912	66,459
Fair value changes of convertible redeemable preferred shares	1,933,597	2,992,664	4,441,164	1,339,273	342,022	297,954
Loss on repurchase of convertible redeemable preferred shares	363,868	—	—	—	—	—
Listing expenses	—	—	21,170	27,774	8,190	4,968
Adjusted EBITDA (non-IFRS measure)	<u>(841,384)</u>	<u>(643,158)</u>	<u>(922,424)</u>	<u>(186,546)</u>	<u>(115,802)</u>	<u>160,117</u>

We adjust for share-based payment expenses, fair value changes of convertible redeemable preferred shares, loss on repurchase of convertible redeemable preferred shares and listing expenses to net loss to derive adjusted net loss. For the same reasons stated above, we have made the adjustments of share-based payment expenses, fair value changes of convertible redeemable preferred shares and loss on repurchase of convertible redeemable preferred shares.

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The following table reconciles adjusted net profit/loss (non-IFRS measure) for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year/period:

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Loss for the year/period	(3,428,278)	(3,928,209)	(5,844,801)	(2,138,315)	(609,724)	(278,532)
Adjusted for:						
Share-based payment expenses . . .	95,121	41,533	118,512	219,339	52,912	66,459
Fair value changes of convertible redeemable preferred shares	1,933,597	2,992,664	4,441,164	1,339,273	342,022	297,954
Loss on repurchase of convertible redeemable preferred shares	363,868	—	—	—	—	—
Listing expenses	—	—	21,170	27,774	8,190	4,968
Adjusted net (loss)/profit (non-IFRS measure)	<u>(1,035,692)</u>	<u>(894,012)</u>	<u>(1,263,955)</u>	<u>(551,929)</u>	<u>(206,600)</u>	<u>90,849</u>

Our adjusted net loss (non-IFRS measure) was RMB1.0 billion, RMB894.0 million, RMB1.3 billion, RMB551.9 million and RMB206.6 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022, respectively, and our adjusted net profit (non-IFRS measure) was RMB90.8 million in the three months ended 31 March 2023. Our negative adjusted EBITDA (non-IFRS measure) was RMB841.4 million, RMB643.2 million, RMB922.4 million, RMB186.5 million and RMB115.8 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022, respectively, and our positive adjusted EBITDA (non-IFRS measure) was RMB160.1 million in the three months ended 31 March 2023.

We present the non-IFRS financial measures because they are used by our management to evaluate our operating performance and formulate business plans. Adjusted EBITDA (non-IFRS measure) enables our management to assess our operating results eliminating the impact of income tax expenses, finance income, finance costs, depreciation and amortisation, share-based payment expenses, fair value changes of convertible redeemable preferred shares, loss on repurchase of convertible redeemable preferred shares and listing expenses. Adjusted net profit/loss (non-IFRS measure) enables our management to assess our operating results eliminating the impact of share-based payment expenses, fair value changes of convertible redeemable preferred shares, loss on repurchase of convertible redeemable preferred shares and listing expenses.

Adjusted EBITDA (non-IFRS measure) and adjusted net profit/loss (non-IFRS measure) should not be considered in isolation or construed as an alternative to loss for the year/period or any other

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measure of performance. Investors are encouraged to review our historical non-IFRS financial measures together with the most directly comparable IFRS measures. Adjusted EBITDA (non-IFRS measure) and adjusted net profit/loss (non-IFRS measure) presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

Revenue

During the Track Record Period, we generate revenue primarily from providing automotive products and services, which include (i) automotive products and services to individual end customers through our online interfaces and offline service network, such as tires and chassis parts replacement, auto maintenance products and services, and others (such as auto accessories, car detailing, automated car wash and repairs), and (ii) auto parts trading services through Qipeilong, which connects third-party auto part suppliers with automotive service providers, including stores within and outside of our store network. We also generate revenue from providing advertising, franchise and other services, which primarily include revenues from franchise services, advertising services to brand owners and certain new products and services. The following table sets forth the breakdown of our revenue, in amounts and as percentages of total revenue for the periods presented:

	For the Year Ended 31 December								For the Three Months Ended 31 March			
	2019		2020		2021		2022		2022		2023	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage data)</i>											
	<i>(unaudited)</i>											
Automotive products and services												
Automotive products and services to individual end customers												
Tires and chassis parts . . .	3,839,114	54.6	4,202,427	48.0	5,064,102	43.2	4,592,220	39.8	1,214,000	40.9	1,356,163	41.5
Auto maintenance	1,870,179	26.6	2,619,116	29.9	3,841,702	32.8	4,025,150	34.9	991,829	33.4	1,194,334	36.6
Others ⁽¹⁾	494,720	7.0	559,696	6.4	645,531	5.5	639,092	5.5	149,300	5.0	166,321	5.1
Subtotal	6,204,013	88.2	7,381,239	84.3	9,551,335	81.5	9,256,462	80.2	2,355,129	79.3	2,716,818	83.2
Qipeilong ⁽²⁾	614,938	8.7	958,970	11.0	1,514,910	12.9	1,466,286	12.7	431,662	14.5	328,152	10.1
Subtotal	6,818,951	96.9	8,340,209	95.3	11,066,245	94.4	10,722,748	92.9	2,786,791	93.8	3,044,970	93.3
Advertising, franchise and other services												
Franchise services ⁽³⁾	167,246	2.4	300,606	3.4	474,158	4.0	549,679	4.8	135,206	4.6	173,826	5.3
Advertising services	51,294	0.7	72,984	0.8	83,950	0.7	59,256	0.5	9,341	0.3	19,016	0.6
Others ⁽⁴⁾	2,870	0.0	39,517	0.5	99,910	0.9	215,168	1.8	37,827	1.3	26,809	0.8
Subtotal	221,410	3.1	413,107	4.7	658,018	5.6	824,103	7.1	182,374	6.2	219,651	6.7
Total	7,040,361	100.0	8,753,316	100.0	11,724,263	100.0	11,546,851	100.0	2,969,165	100.0	3,264,621	100.0

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Notes:

- (1) Others under automotive products and services to individual end customers primarily consist of revenues from auto accessories, car detailing, automated car wash and repairs. We recognise revenue on a net basis when an automotive service order is placed online by our end customer and the service is rendered by our partner store. The below table sets forth the breakdown of others for the periods indicated:

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>(RMB in thousands)</i>				<i>(unaudited)</i>	
Auto accessories	325,368	338,723	400,898	380,069	94,413	96,933
Car detailing, automated car wash and repairs	69,639	110,082	148,934	146,694	32,439	36,890
Others	99,713	110,891	95,699	112,329	22,448	32,498
Total	494,720	559,696	645,531	639,092	149,300	166,321

- (2) We recognise revenue from sales of auto parts through Qipeilong to (i) third-party auto parts dealers/customers and service providers and (ii) Tuhu workshops and partner stores, at gross basis and at the point in time when they have taken possession of and accepted the auto parts, as well as the expiration of a 30-day unconditional return period. Costs are recognised at the same time when revenue is recognised.
- (3) We recognise revenue from providing franchise services to our franchisees pursuant to the franchise agreements, which allow our franchisees to operate Tuhu Workshops, and enjoy the benefits of our Tuhu brand, online customer traffic, supply chain infrastructure, and the auto service technical support systems that we provide. The below table sets forth the breakdown of revenues from franchise services during the Track Record Period.

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>(RMB in thousands)</i>				<i>(unaudited)</i>	
Upfront franchise fees*	57,803	104,342	151,043	179,776	44,086	49,160
Monthly fixed management fees	70,099	118,422	197,480	229,268	60,048	74,867
Profit-based royalty fees*	39,344	77,842	125,635	140,635	31,072	49,799
Total	167,246	300,606	474,158	549,679	135,206	173,826

* Revenue from the upfront franchise fees was recognised over the term of the franchise agreement on a straight-line basis. For the years of 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, the average upfront franchise fee per Tuhu workshop were RMB58,006, RMB57,663, RMB50,508, RMB44,122, RMB11,691 and RMB10,803, respectively, and the average profit-based royalty fees per Tuhu workshop were RMB39,482, RMB43,019, RMB42,011, RMB34,516, RMB8,240 and RMB10,944, respectively. The number of Tuhu workshops used for calculation is the average of the number of franchised Tuhu workshops as at the beginning and as at the end of each year/period.

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- (4) Others under advertising, franchise and other services primarily include sales of new energy vehicles and repair services, insurance brokerage and insurance agency services, sales of used cars and used car transaction services, and SaaS solutions. The below table sets forth the breakdown of others for the periods indicated:

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>(RMB in thousands)</i>				<i>(unaudited)</i>	
Sales of new energy vehicles and repair services	—	—	25,115	132,082	20,116	10,216
Insurance brokerage and insurance agency services	2,245	19,832	25,840	9,508	3,071	2,542
Sales of used cars and used car transaction services	—	10,359	17,834	10,108	1,712	4,311
SaaS solutions	—	8,389	11,252	22,143	4,501	2,464
Others	625	938	19,869	41,327	8,427	7,276
Total	<u>2,870</u>	<u>39,517</u>	<u>99,910</u>	<u>215,168</u>	<u>37,827</u>	<u>26,809</u>

The sale of new energy vehicles and repair services increased significantly from 2021 to 2022, primarily due to (i) the increase in the sales of new energy vehicles as we established cooperation with more NEV brands since the last quarter of 2021 in line with our business expansion of NEV sales, and (ii) the increase in the battery and charging pile maintenance and repair service orders we completed.

Based on the due diligence work conducted by and the information available to the Joint Sponsors after taking into consideration the view of the CIC that the pricing bases (the “**Pricing Bases**”) for the fees the Company charges the franchised Tuhu workshops are in line with the industry peers, nothing has come to the attention of the Joint Sponsors that would reasonably cause them to believe that the Pricing Bases are not in line with the industry peers or are not on arm’s length basis.

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Cost of Revenue

Cost of revenue primarily consists of our cost of automotive products and services to individual end customers, which mainly include cost of procuring the products that we sell through online interfaces and offline service network, and cost of acquiring services provided by franchised Tuhu workshops and partner stores. The following table sets forth the breakdown of our cost of revenue, in amounts and as percentages of total revenue for each of the periods presented:

	For the Year Ended 31 December								For the Three Months Ended			
	2019		2020		2021		2022		31 March		2023	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage data)</i>											
	<i>(unaudited)</i>											
Cost of automotive products and services												
Cost of automotive products and services to individual end customers												
Cost of tires and chassis												
parts	3,691,044	52.4	3,875,709	44.3	4,607,896	39.3	3,945,254	34.2	1,061,053	35.7	1,136,615	34.8
Cost of auto maintenance	1,474,333	20.9	2,015,052	23.0	2,823,579	24.1	2,833,070	24.5	708,999	23.9	798,135	24.4
Cost of others	482,841	6.9	539,740	6.2	612,442	5.2	569,145	4.9	134,298	4.5	143,127	4.4
Subtotal	5,648,218	80.2	6,430,501	73.5	8,043,917	68.6	7,347,469	63.6	1,904,350	64.1	2,077,877	63.6
Cost associated with												
Qipeilong	607,936	8.7	952,092	10.8	1,375,682	11.7	1,292,252	11.2	385,506	13.0	270,777	8.4
Subtotal	6,256,154	88.9	7,382,593	84.3	9,419,599	80.3	8,639,721	74.8	2,289,856	77.1	2,348,654	72.0
Cost of advertising, franchise and other services	32,851	0.5	64,442	0.7	113,169	1.0	227,174	2.0	40,758	1.4	34,276	1.0
Cost of self-operated Tuhu workshops and others⁽¹⁾	227,949	3.2	226,259	2.7	321,193	2.7	409,774	3.5	105,679	3.6	91,907	2.8
Total	6,516,954	92.6	7,673,294	87.7	9,853,961	84.0	9,276,669	80.3	2,436,293	82.1	2,474,837	75.8

Note:

- (1) Cost of self-operated Tuhu workshops and others primarily consists of (i) staff costs, and depreciation, including depreciation of right-of-use assets, in relation to the operation of our self-operated Tuhu workshops, and (ii) inventory impairment and the loss from disposal of some defective products. It is difficult to allocate cost of self-operated Tuhu workshops and others to each sub business line under automotive products and services and advertising, franchise and other services in a precise manner.

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The following table sets forth the breakdown of our cost of revenue by nature for each of the periods presented:

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>(RMB in thousands)</i>				<i>(unaudited)</i>	
Cost of goods sold	5,570,047	6,621,118	8,513,776	7,922,212	2,095,377	2,121,194
Service fee to franchised Tuhu workshops and partner stores	647,853	740,162	913,636	818,030	204,791	231,085
Depreciation and amortisation expenses	102,082	104,522	156,066	199,422	48,193	44,687
Employee benefit expenses	116,353	111,413	134,255	159,946	41,738	43,663
Impairment of inventories	17,255	25,241	46,779	77,698	9,659	13,238
Others	63,364	70,838	89,449	99,361	36,535	20,970
Total	<u>6,516,954</u>	<u>7,673,294</u>	<u>9,853,961</u>	<u>9,276,669</u>	<u>2,436,293</u>	<u>2,474,837</u>

Gross Profit and Gross Margin

The following table sets forth our gross profit both in absolute amount and as percentages of our revenue for the periods indicated, respectively:

	For the Year Ended 31 December								For the Three Months Ended 31 March			
	2019		2020		2021		2022		2022		2023	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage data)</i>								<i>(unaudited)</i>			
Gross profit . . .	523,407	7.4	1,080,022	12.3	1,870,302	16.0	2,270,182	19.7	532,872	17.9	789,784	24.2

Our gross profit represents our revenue less our cost of revenue. Our gross margin represents our gross profit as a percentage of our revenue. For the years of 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, our gross profit was RMB523.4 million, RMB1.1 billion, RMB1.9 billion, RMB2.3 billion, RMB532.9 million and RMB789.8 million, respectively, and our gross margin was 7.4%, 12.3%, 16.0%, 19.7%, 17.9% and 24.2%, respectively. Our gross margin improved during the Track Record Period, primarily attributable to (i) improved margin profile as a result of changes in products and services category mix. In particular, revenue from auto maintenance products and services — which generally have higher margins — as a percentage of revenue from automotive products and services increased from 27.4% in 2019 to 31.4% in 2020, to 34.7% in 2021, to 37.5% in 2022, and further to 39.2% in the three months ended 31 March 2023, whereas revenue from tires and chassis products and services — which generally

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have lower margins — as a percentage of revenue from automotive products and services decreased from 56.3% in 2019 to 50.4% in 2020, to 45.8% in 2021, and further to 42.8% in 2022, and changed to 44.5% in the three months ended 31 March 2023, (ii) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth. Our growing economies of scale enabled us to increase our bargaining power on pricing and obtained more favorable terms from suppliers. For example, for tires (excluding tires sold through Qipeilong), the average procurement cost per unit decreased by 2.2% in 2021 as compared to 2020, and further decreased by 2.5% in 2022, and decreased by 2.5% in the three months ended 31 March 2023 as compared to the same period of 2022, and (iii) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products. Revenue contribution from exclusive products increased from 17.5% in 2019 to 26.3% in 2020, to 32.9% in 2021, and further to 36.0% in 2022, and increased from 31.8% in the three months ended 31 March 2022 to 36.5% in the same period of 2023; revenue contribution from private label products increased from 4.7% in 2019 to 9.8% in 2020, to 16.3% in 2021, and further to 22.1% in 2022, and increased from 20.8% in the three months ended 31 March 2022 to 30.1% in the same period of 2023. Despite the decrease in revenue in 2022, we managed to achieve increases in the gross profit and gross profit margin, primarily due to the reasons enumerated above, i.e., improved margin profile as a result of changes in products and services category mix, lower procurement cost of certain product categories, and higher revenue contribution from our exclusive and private label products.

The following table sets forth our gross profit by business line in absolute amount and as percentages of revenue from each business line for the periods indicated.

	For the Year Ended 31 December								For the Three Months Ended 31 March			
	2019		2020		2021		2022		2022		2023	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage data)</i>											
	<i>(unaudited)</i>											
Gross profit by business line												
Automotive products and services to individual end customers ⁽¹⁾												
Tires and chassis parts	148,070	3.9	326,718	7.8	456,206	9.0	646,966	14.1	152,947	12.6	219,548	16.2
Auto maintenance	395,846	21.2	604,064	23.1	1,018,123	26.5	1,192,080	29.6	282,830	28.5	396,199	33.2
Others	11,879	2.4	19,956	3.6	33,089	5.1	69,947	10.9	15,002	10.0	23,194	13.9
Qipeilong	7,002	1.1	6,878	0.7	139,228	9.2	174,034	11.9	46,156	10.7	57,375	17.5
Advertising, franchise and other services	188,559	85.2	348,665	84.4	544,849	82.8	596,929	72.4	141,616	77.7	185,375	84.4

Note:

- (1) When calculating the gross profit by each sub business line under automotive products and services to individual end customers, cost of self-operated Tuhu workshops and others was excluded. For example, gross profit for tires and chassis parts

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equals revenue from tires and chassis parts less cost of tires and chassis parts. Cost of tires and chassis parts excludes the cost of self-operated Tuhu workshops and others associated with selling of tires and chassis parts. It is difficult to allocate cost of self-operated Tuhu workshops and others to each sub business line under automotive products and services and advertising, franchise and other services in a precise manner.

The significant increases in gross profit from Qipeilong from 2020 to 2021 and further to 2022, and from the three months ended 31 March 2022 to the same period of 2023, were primarily due to changes in products category mix, in particular, as revenue from auto maintenance and repairs products — which generally have higher margins — as a percentage of revenue from Qipeilong increased from 28.8% in 2020 to 39.2% in 2021, and further to 55.4% in 2022, and from 49.6% in the three months ended 31 March 2022 to 64.5% in the same period of 2023, whereas revenue from tires — which generally have lower margins — as a percentage of revenue from Qipeilong decreased from 63.9% in 2020 to 52.7% in 2021, and further to 39.1% in 2022, and from 45.8% in the three months ended 31 March 2022 to 29.2% in the same period of 2023.

Other Income and Gains, Net

Our net other income and gains primarily consist of (i) government grants awarded by local governmental authorities to support our operation, (ii) gain from intangible assets attributed to an associate, which represents one-off gain recognised from our investment in an associate jointly invested by ExxonMobil through contribution of software, and (iii) net foreign exchange gains. We had net other income and gains of RMB11.6 million, RMB114.5 million, RMB121.5 million, RMB151.5 million, RMB8.9 million and RMB17.4 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

Operations and Support Expenses

Our operations and support expenses primarily consist of (i) salaries and employment benefits for operations and supporting staff, which primarily include personnel involved in store network development, operation and supervision, and other general support functions, and (ii) travel expenses incurred in connection with operations and support activities. We incurred RMB216.2 million, RMB308.3 million, RMB654.1 million, RMB627.5 million, RMB166.2 million and RMB139.4 million in operations and support expenses in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

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The below table sets forth the breakdown of operations and support expenses for the periods indicated.

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Employee benefit expenses ⁽¹⁾	175,068	249,091	562,928	564,657	146,488	123,677
Travel and office expenses	31,627	46,055	71,965	45,488	15,121	11,017
Depreciation and amortisation expenses . . .	9,485	13,119	19,158	17,328	4,622	4,668
Total	<u>216,180</u>	<u>308,265</u>	<u>654,051</u>	<u>627,473</u>	<u>166,231</u>	<u>139,362</u>

Note:

(1) Includes share-based payment expenses of RMB36.2 million, RMB11.4 million, RMB32.2 million, RMB37.5 million, RMB9.9 million and RMB11.3 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

We expect our operations and support expenses as a percentage of total revenue will decrease in the foreseeable future.

Research and Development Expenses

Our research and development expenses mainly consist of (i) salaries and employment benefits for employees involved in research and development functions, (ii) cloud and other service expenses, and (iii) office supply expenses and depreciation expenses of right-of-use assets in relation to office leases for research and development functions. All of our research and development costs are expensed as incurred. We incurred RMB223.3 million, RMB369.5 million, RMB619.6 million, RMB621.4 million, RMB162.3 million and RMB152.7 million in research and development expenses in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

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The below table sets forth the breakdown of research and development expenses for the periods indicated.

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Employee benefit expenses ⁽¹⁾	199,058	319,950	519,795	515,610	130,912	130,434
Cloud and service expenses	9,632	26,884	68,142	77,171	24,213	15,132
Depreciation and amortisation expenses . . .	7,616	10,913	20,833	19,680	4,548	5,629
Travel and office expenses	6,295	10,226	10,100	6,451	1,966	962
Others	678	1,532	713	2,453	673	587
Total	<u>223,279</u>	<u>369,505</u>	<u>619,583</u>	<u>621,365</u>	<u>162,312</u>	<u>152,744</u>

Note:

(1) Includes share-based payment expenses of RMB25.1 million, RMB12.3 million, RMB26.7 million, RMB40.5 million, RMB9.5 million and RMB12.3 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

Our research and development expenses increased from 2019 through 2022, mainly attributable to (i) the increases in research and development personnel cost (including share-based payment expenses), which was mainly due to (a) the growth of our research and development team as we continue to strengthen our technological capabilities and explore new products and services, and (b) the increase in average salaries of research and development personnel as part of efforts to attract and retain research and development talents, and (ii) the increase in cloud and service expenses in line with our business growth. Certain unique factors contributed to the significant increase from 2020 to 2021: (i) the increase in social insurance payment for our research and development personnel in 2021 as we ceased to enjoy the social insurance payment reductions and exemptions granted by local governmental authorities as part of the COVID-19 relief measures; and (ii) as majority of the newly recruited research and development personnel joined us in or around the end of June 2020, we started recording their personnel cost since the end of second quarter of 2020, which also contributed to the period-over-period increase in research and development expenses. Our research and development expenses decreased in the three months ended 31 March 2023 as compared with the same period of 2022, mainly attributable to the decrease in cloud and service expenses as a result of the decrease in outsourced service fees, and the decrease in research and development personnel cost (excluding share-based payment expenses), mainly due to the decrease in the number of research and development personnel. For details, see “— Period-to-Period Comparison of Results of Operations.”

We expect our research and development expenses will continue to increase in absolute amounts as we plan to invest more resources to improve our technological capabilities. We also expect our research and development as a percentage of total revenue will decrease in the foreseeable future.

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Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) advertising and promotion-related expenses, such as expenses relating to online traffic acquisition and media advertising expenses, (ii) salaries and employment benefits for selling and marketing personnel, and our warehouse and logistics staff, (iii) shipping expenses in relation to the delivery of automotive products among warehouses and stores, (iv) depreciation of right-of-use assets and short-term lease expenses in relation to warehouse and office leases, and (v) office supply, utilities, and travel expenses incurred in connection with selling and marketing activities. We incurred RMB1.0 billion, RMB1.3 billion, RMB1.7 billion, RMB1.5 billion, RMB378.3 million and RMB421.5 million in selling and marketing expenses in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

The below table sets forth the breakdown of selling and marketing expenses for the periods indicated.

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Advertising and promotion-related expenses	485,488	532,422	764,352	617,297	145,459	181,222
Shipping expenses	157,445	215,782	343,175	356,608	91,848	99,197
Employee benefit expenses ⁽¹⁾	213,399	288,044	338,627	328,030	82,408	75,409
Depreciation and amortisation expenses	73,044	101,894	91,706	110,490	25,647	28,562
Short-term lease expenses	25,151	26,052	46,611	56,480	12,966	11,046
Others	86,431	98,422	96,660	73,311	19,996	26,023
Total	<u>1,040,958</u>	<u>1,262,616</u>	<u>1,681,131</u>	<u>1,542,216</u>	<u>378,324</u>	<u>421,459</u>

Note:

(1) Includes share-based payment expenses of RMB3.2 million, RMB9.0 million, RMB20.1 million, RMB31.6 million, RMB8.2 million and RMB4.0 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

We expect our selling and marketing expenses as a percentage of total revenue will decrease in the foreseeable future.

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General and Administrative Expenses

Our general and administrative expenses mainly consist of (i) salaries and employment benefits for employees engaging in general corporate functions, (ii) bank processing fees and other professional services fees, and (iii) other general corporate expenses associated with the use by general corporate functions of offices, facilities and equipment, such as depreciation of leasehold improvements and office supply expenses. We incurred RMB197.9 million, RMB193.1 million, RMB351.0 million, RMB399.1 million, RMB99.2 million and RMB96.0 million in general and administrative expenses in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

The below table sets forth the breakdown of general and administrative expenses for the periods indicated.

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Employee benefit expenses ⁽¹⁾	94,139	93,623	195,757	259,513	63,976	65,237
Professional and consulting expenses ⁽²⁾	10,360	15,709	61,424	45,795	8,425	9,958
Bank charges	32,388	34,680	37,525	41,537	13,328	7,610
Depreciation and amortisation expenses	7,089	8,518	16,754	16,856	4,273	4,765
Others	53,930	40,613	39,562	35,393	9,151	8,393
Total	197,906	193,143	351,022	399,094	99,153	95,963

Note:

- (1) Includes share-based payment expenses of RMB30.6 million, RMB8.9 million, RMB34.5 million, RMB90.9 million, RMB22.0 million and RMB25.9 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.
- (2) Consists primarily of costs associated with third-party professional and consulting services, such as legal services, audit, tax consulting and valuation services as well as technical services incurred in the ordinary course of our business and in connection with the Listing.

We expect our general and administrative expenses as a percentage of total revenue will remain stable in the foreseeable future.

Fair Value Changes of Convertible Redeemable Preferred Shares

The convertible redeemable preferred shares issued by us are not traded in an active market and the respective fair value is determined by using valuation techniques. The discounted cash flow

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method was used to determine the total equity value of our Company and the equity allocation model was adopted to determine the fair value of the preferred shares. Please refer to note 34 to the Accountants' Report included in Appendix I to this document for the key assumptions in determining the fair value of the convertible redeemable preferred shares. We recorded fair value changes of convertible redeemable preferred shares of RMB1.9 billion, RMB3.0 billion, RMB4.4 billion, RMB1.3 billion, RMB342.0 million and RMB298.0 million in 2019, 2020, 2021 and 2022 and the three months ended 31 March 2022 and 2023, respectively.

Exchange differences on translation of financial statements

The functional currency of our Cayman holding company and certain overseas subsidiaries are denominated in US\$. The assets and liabilities of these entities are translated into Renminbi at the foreign exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. We recorded other comprehensive income on exchange differences on translation of foreign operations of RMB77.1 million, RMB472.6 million, RMB264.8 million, RMB66.4 million and RMB259.7 million in 2019, 2020 and 2021 and the three months ended 31 March 2022 and 2023, respectively and other comprehensive loss on exchange differences on translation of foreign operations of RMB1.6 billion in 2022.

Taxation

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, our Hong Kong subsidiaries are subject to 16.5% income tax rate on our taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

PRC

Our subsidiaries established in the PRC are mainly subject to statutory income tax at a rate of 25%.

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The Enterprise Income Tax (“EIT”) Law includes a provision specifying that legal entities organised outside of the PRC will be considered resident enterprises for the PRC income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered as PRC resident enterprises if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, we do not believe that our entities organised outside of the PRC should be treated as resident enterprises for the PRC income tax purposes. If the PRC tax authorities subsequently determine that our Company and our subsidiaries registered outside the PRC should be deemed resident enterprises, our Company and our subsidiaries registered outside the PRC will be subject to the PRC income tax, at a rate of 25%. See “Risk Factors — Risks Related to Doing Business in the Country Where We Operate — If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavourable tax consequences to us and our non-PRC shareholders.”

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). We did not record any dividend withholding tax, as we have no retained earnings to distribute as of 31 December 2019, 2020, 2021, 2022 and the three months ended 31 March 2023. See “Risk Factors — Risks Related to Doing Business in the Country Where We Operate — We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.”

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three Months Ended 31 March 2023 Compared to Three Months Ended 31 March 2022

Revenue

Our revenue increased by 10.0% from RMB3.0 billion in the three months ended 31 March 2022 to RMB3.3 billion in the same period of 2023, primarily due to an increase in revenue from automotive products and services.

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Revenue from automotive products and services increased by 9.3% from RMB2.8 billion in the three months ended 31 March 2022 to RMB3.0 billion in the same period of 2023, primarily due to (i) a 20.4% increase in revenue from auto maintenance products and services from RMB991.8 million in the three months ended 31 March 2022 to RMB1.2 billion in the same period of 2023, in particular, the revenue from sale of motor oil and related services increased from RMB503.5 million to RMB643.7 million with the sales volume of motor oil products increased by 26.8% from 10.9 million liters to 13.8 million liters, mainly driven by the post-COVID-19 business recovery, and the expansion of our Tuhu workshop network and growing customer base. The number of Tuhu workshops increased from 4,078 as of 31 March 2022 to 4,770 as of 31 March 2023, and (ii) a 11.7% increase in revenue from the sale of tires and chassis parts and related installation services from RMB1.2 billion in the three months ended 31 March 2022 to RMB1.4 billion in the same period of 2023, in particular, the sales volume of tires products increased by 8.0% from 3.1 million units to 3.3 million units, mainly resulting from the post-COVID-19 business recovery. The released accumulative travel backlog demand increased miles driven, and as a result needs for tire changes. The revenue increase was partially offset by a 24.0% decrease in revenue from our auto parts sold through Qipeilong from RMB431.7 million in the three months ended 31 March 2022 to RMB328.2 million in the same period of 2023, mainly as a result of the decrease in revenue from regional wholesale service as we strategically allocated more resources to develop the instant procurement service through Qipeilong.

Revenue from advertising, franchise and other services increased by 20.4% from RMB182.4 million in the three months ended 31 March 2022 to RMB219.7 million in the same period of 2023, primarily due to (i) an increase in revenue from franchise services, primarily due to (a) the expansion of franchised Tuhu workshops network from 3,884 franchised Tuhu workshops as of 31 March 2022 to 4,610 as of 31 March 2023, (b) the increase in the management fees as a result of the cessation of our COVID-19 relief measures, such as the reduction and exemption of management fees, and (c) the increase in the profit-based royalty fees in line with the business recovery of the franchised Tuhu workshops, and (ii) an increase in advertising services to brand owners, primarily driven by brand owners' enhanced investment in marketing campaigns in line with the post-COVID-19 business recovery, partially offset by a decrease in revenue from our NEV initiatives as we adjusted our development strategies, and terminated the sales of new energy vehicles from certain NEV brands.

Cost of revenue

Our cost of revenue increased by 1.6% from RMB2.4 billion in the three months ended 31 March 2022 to RMB2.5 billion in the same period of 2023, at a pace slower than the growth of our revenue. The increase was primarily attributable to (i) a 12.6% increase in cost of auto maintenance products and services from RMB709.0 million in the three months ended 31 March 2022 to RMB798.1 million in the same period of 2023, and (ii) a 7.1% increase in cost of sale of tires and chassis parts and related installation services from RMB1,061.1 million in the three months ended 31 March 2022 to RMB1,136.6 million in the same period of 2023. The increases mentioned in (i) and (ii) were primarily due to an increase in products and service sales in line with the post-COVID-19 business recovery and expansion of our Tuhu workshop network, partially offset by (i)

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improved margin profile as a result of changes in products and services category mix, in particular, as revenue from auto maintenance products and services — which generally have higher margins — as a percentage of revenue from automotive products and services increased from 35.6% in the three months ended 31 March 2022 to 39.2% in the same period of 2023, (ii) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth, and (iii) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products. Revenue contribution from exclusive products increased from 31.8% in the three months ended 31 March 2022 to 36.5% in the same period of 2023, and revenue contribution from private label products increased from 20.8% in the three months ended 31 March 2022 to 30.1% in the same period of 2023. The decrease in the cost of revenue from our auto parts sold through Qipeilong also partially offset the increase in cost of revenue as we strategically contained the business scale of our regional wholesale service through Qipeilong and allocated more resources to develop the instant procurement service through Qipeilong.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 48.2% from RMB532.9 million in the three months ended 31 March 2022 to RMB789.8 million in the same period of 2023. Our overall gross margin improved from 17.9% to 24.2% during the same period, primarily due to (i) improved margin profile as a result of changes in products and services category mix, (ii) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth, and (iii) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products. See “— Description of Major Components of our Results of Operations — Gross Profit and Gross Margin.”

Other income and gains, net

Our net other income and gains increased from RMB8.9 million in the three months ended 31 March 2022 to RMB17.4 million in the same period of 2023. The increase was primarily because the increase in government grants awarded by the local governments to support our operation.

Operations and support expenses

Our operations and support expenses decreased from RMB166.2 million in the three months ended 31 March 2022 to RMB139.4 million in the same period of 2023, which was mainly due to (i) a RMB24.2 million decrease in operations and support personnel cost (excluding share-based payment expenses), and (ii) a RMB4.1 million decrease in travel and office expenses as business trips reduced, both primarily as a result of the decreased number of operations and support personnel from 2,787 (being the average of the number of our operations and support staff as of 1 January 2022 and as of 31 March 2022) to 2,108 (being the average of the number of our operations and support staff as of 1 January 2023 and as of 31 March 2023) as we adopted a series of measures to reduce costs and increase efficiency.

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Research and development expenses

Our research and development expenses decreased from RMB162.3 million in the three months ended 31 March 2022 and RMB152.7 million in the same period of 2023, mainly attributable to (i) a RMB9.1 million decrease in cloud and service expenses as a result of the decrease in outsourced service fees, and (ii) a RMB3.3 million decrease in research and development personnel cost (excluding share-based payment expenses), mainly due to the decrease in the number of research and development personnel from 991 (being the average of the number of our research and development staff as of 1 January 2022 and as of 31 March 2022) to 891 (being the average of the number of our operations and support staff as of 1 January 2023 and as of 31 March 2023). The decreases in the outsourced service fees and the number of our research and development staff were both due to the series of measures we adopted to reduce costs and increase efficiency.

Selling and marketing expenses

Our selling and marketing expenses increased by 11.4% from RMB378.3 million in the three months ended 31 March 2022 to RMB421.5 million in the same period of 2023, which was mainly due to (i) a RMB35.8 million increase in advertising and promotion-related expenses as part of our investments in marketing to further enhance our brand recognition, in line with the post-COVID-19 business recovery, and (ii) a RMB7.3 million increase in shipping expenses incurred in relation to the delivery of automotive products among warehouses and stores in line with the business recovery, partially offset by a RMB7.0 million decrease in staff cost (including share-based payment expenses) primarily as a result of the decreased number of selling and marketing personnel from 848 (being the average of the number of selling and marketing personnel as of 1 January 2022 and as of 31 March 2022) to 676 (being the average of the number of selling and marketing personnel as of 1 January 2023 and as of 31 March 2023) as we adopted a series of measures to reduce costs and increase efficiency.

General and administrative expenses

Our general and administrative expenses decreased by 3.2% from RMB99.2 million in the three months ended 31 March 2022 to RMB96.0 million in the same period of 2023, which was mainly due to the RMB5.7 million decrease in bank charges as a result of the decrease in the fee rates, partially offset by the RMB3.9 million increase in the share-based payment expenses as part of our efforts to attract and retain talents.

Finance income

Our finance income increased by 130.9% from RMB11.0 million in the three months ended 31 March 2022 to RMB25.4 million in the same period of 2023, which was mainly due to the increase in average balance of time deposits and demand deposits in the same period of 2023.

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Finance costs

Our finance costs decreased by 47.2% from RMB9.3 million in the three months ended 31 March 2022 to RMB4.9 million in the same period of 2023, which was mainly because (i) we incurred less interests on lease liabilities in the three months ended 31 March 2023, primarily due to the decrease in the number of self-operated Tuhu workshops, and (ii) we incurred interest expenses in the three months ended 31 March 2022, which amount was nil in the same period of 2023 as the outstanding balance of short-term bank borrowings was nil during the same period of 2023.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were a loss of RMB298.0 million in the three months ended 31 March 2023, as compared to a loss of RMB342.0 million in the same period of 2022. The changes in the fair value of our convertible redeemable preferred shares were primarily attributable to the increase in our Company's valuation and the change in the Company's valuation was relatively small in the three months ended 31 March 2023 as compared to the same period of 2022. See Note 34 to the Accountants' Report in Appendix I to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Income tax expense

Our income tax expense decreased by RMB3.7 million from RMB5.2 million to RMB1.5 million, primarily due to decrease in taxable income of certain subsidiaries.

Loss for the period

As a result of the foregoing, our loss for the period decreased by 54.3% from RMB609.7 million in the three months ended 31 March 2022 to RMB278.5 million in the same period of 2023.

Year Ended 31 December 2022 Compared to Year Ended 31 December 2021

Revenue

Our revenue slightly decreased by 1.5% from RMB11.7 billion in 2021 to RMB11.5 billion in 2022, primarily due to a slight decrease in revenue from automotive products and services, partially offset by an increase in revenue from advertising, franchise and other services.

Revenue from automotive products and services slightly decreased by 3.1% from RMB11.1 billion in 2021 to RMB10.7 billion in 2022, primarily due to (i) a 9.3% decrease in revenue from the sale of tires and chassis parts and related installation services from RMB5.1 billion in 2021 to RMB4.6 billion in 2022, in particular, the sales volume of tires products decreased by 12.3% from 13.1 million units to 11.5 million units, mainly resulting from the COVID-19 resurgence across the country, especially in certain major cities, such as Shanghai. The restriction on or advise against

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travel, and other preventive measures such as social-distancing and remote working arrangements reduced miles driven, and as a result needs for tire changes, and (ii) a 3.2% decrease in revenue from our auto parts sold through Qipeilong from RMB1,514.9 million in 2021 to RMB1,466.3 million in 2022, mainly as a result of the decrease in revenue from regional wholesale service as we strategically allocated more resources to develop the instant procurement service through Qipeilong, partially offset by a 4.8% increase in revenue from auto maintenance products and services from RMB3.8 billion in 2021 to RMB4.0 billion in 2022, in particular, the revenue from sale of motor oil and related services increased from RMB1.9 billion to RMB2.0 billion with the sales volume of motor oil products increased by 7.8% from 40.5 million liters to 43.6 million liters, mainly driven by the expansion of our Tuhu workshop network and growing customer base. The number of Tuhu workshops increased from 3,853 as of 31 December 2021 to 4,653 as of 31 December 2022.

Revenue from advertising, franchise and other services increased by 25.2% from RMB658.0 million in 2021 to RMB824.1 million in 2022, primarily due to (i) an increase in revenue from our NEV initiatives, and (ii) an increase in revenue from franchise services, in line with the expansion of franchised Tuhu workshops network from 3,658 franchised Tuhu workshops as of 31 December 2021 to 4,491 as of 31 December 2022.

Cost of revenue

Our cost of revenue decreased by 5.9% from RMB9.9 billion in 2021 to RMB9.3 billion in 2022. The decrease was primarily attributable to a 14.4% decrease in cost of sale of tires and chassis parts and related installation services from RMB4.6 billion in 2021 to RMB3.9 billion in 2022, partially offset by a 402.8% increase in cost associated with our NEV initiatives from RMB24.5 million in 2021 to RMB123.2 million in 2022. In addition, the following factors also contributed to the decrease in cost of revenue: (i) improved margin profile as a result of changes in products and services category mix, in particular, as revenue from auto maintenance products and services — which generally have higher margins — as a percentage of revenue from automotive products and services increased from 34.7% in 2021 to 37.5% in 2022, whereas revenue from tires and chassis products and services — which generally have lower margins — as a percentage of revenue from automotive products and services decreased from 45.8% to 42.8%, (ii) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth, and (iii) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products. Revenue contribution from exclusive products increased from 32.9% in 2021 to 36.0% in 2022, and revenue contribution from private label products increased from 16.3% in 2021 to 22.1% in 2022.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 21.4% from RMB1.9 billion in 2021 to RMB2.3 billion in 2022. Our overall gross margin improved from 16.0% to 19.7% during the same period, primarily due to (i) improved margin profile as a result of changes in products and services category mix, (ii) lower procurement cost of certain product categories as we gained more

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favourable terms from suppliers in line with our business growth, and (iii) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products. See “— Description of Major Components of our Results of Operations — Gross Profit and Gross Margin.”

Other income and gains, net

Our net other income and gains increased from RMB121.5 million in 2021 to RMB151.5 million in 2022. The increase was primarily because the increase in government grants awarded by the local governments to support our operation, partially offset by the factor that we had a one-off gain of RMB28.0 million recognised from our investment in an associate jointly invested by ExxonMobil through contribution of software in 2021, which amount was nil in 2022.

Operations and support expenses

Our operations and support expenses decreased from RMB654.1 million in 2021 to RMB627.5 million in 2022, which was mainly due to the decrease in travel and office expenses from RMB72.0 million in 2021 to RMB45.5 million in 2022 as business trips reduced as a result of the COVID-19 resurgence across the country.

Research and development expenses

Our research and development expenses remained relatively flat with RMB619.6 million in 2021 and RMB621.4 million in 2022, mainly attributable to (i) a RMB13.8 million increase in share-based payment expenses as we granted certain share awards to our employees at the end of 2021, which was recorded as expenses in 2022, and (ii) a RMB9.0 million increase in cloud and service expenses in connection with the iteration of internal systems, partially offset by (i) a RMB18.0 million decrease in research and development personnel cost (excluding share-based payment expenses), which was mainly due to the decrease in the year-end bonus for research and development personnel as we adopted a series of measures to reduce costs and increase efficiency, and (ii) a RMB3.6 million decrease in travel and office expenses as business trips reduced as a result of the COVID-19 resurgence across the country.

Selling and marketing expenses

Our selling and marketing expenses decreased by 8.3% from RMB1.7 billion in 2021 to RMB1.5 billion in 2022, which was mainly due to (i) a RMB147.1 million decrease in advertising and promotion-related expenses as we reduced our marketing expenses as a result of the COVID-19 resurgence, and (ii) a RMB22.1 million decrease in staff cost (excluding share-based payment expenses) primarily as a result of the decreased number of selling and marketing personnel from 1,035 (being the average of the number of our selling and marketing staff as of 1 January 2021 and as of 31 December 2021) to 775 (being the average of the number of our selling and marketing staff as of 1 January 2022 and as of 31 December 2022) as we adopted a series of measures to reduce

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costs and increase efficiency, such as, optimizing the layout of our flagship APP, and further utilizing AI technology for online customer services, partially offset by (i) a RMB18.8 million increase in depreciation and amortisation expenses mainly as a result of the increase in the amortisation of right-of-use assets in connection with the lease of warehouses as we leased more warehousing space in line with our business growth, (ii) a RMB13.4 million increase in shipping expenses incurred in relation to the delivery of automotive products among warehouses and stores resulting from supply chain disruptions caused by the COVID-19 resurgence, and (iii) a RMB11.5 million increase in share-based payment expenses as we granted certain share awards to our employees at the end of 2021, which was recorded as expenses in 2022.

General and administrative expenses

Our general and administrative expenses increased by 13.7% from RMB351.0 million in 2021 to RMB399.1 million in 2022, which was mainly due to the increase in personnel related expenses (including share-based payment expenses) from RMB195.8 million in 2021 to RMB259.5 million in 2022 as (a) the share-based payment expenses increased by RMB56.4 million in 2022, mainly due to the large number of share awards granted at the end of 2021, as well as the increase in our Company's valuation, (b) the personnel involved in general and administrative functions increased from 371 (being the average of the number of the personnel involved in general and administrative functions as of 1 January 2021 and as of 31 December 2021) to 402 (being the average of the number of our personnel involved in general and administrative functions as of 1 January 2022 and as of 31 December 2022) in line with our growing business, and (c) we raised the average salaries of personnel involved in general and administrative functions as part of our efforts to attract and retain talents.

Finance income

Our finance income decreased by 10.3% from RMB63.5 million in 2021 to RMB56.9 million in 2022, which was mainly due to the decrease in average balance of time deposits in 2022, as a result of the release of certain security deposits and the withdrawal of a number of time deposits upon maturity.

Finance costs

Our finance costs decreased by 57.6% from RMB65.7 million in 2021 to RMB27.9 million in 2022, which was mainly because (i) we repaid certain short-term bank borrowings in 2022, and (ii) we incurred certain transaction costs for the issuance of convertible redeemable preferred shares in 2021, which amount was nil in 2022.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were a loss of RMB1.3 billion in 2022, as compared to a loss of RMB4.4 billion in 2021. The changes in the fair value of

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our convertible redeemable preferred shares were primarily attributable to the increase in our Company's valuation and the change in the Company's valuation was relatively small in 2022 as compared to 2021. See Note 34 to the Accountants' Report in Appendix I to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Income tax expense

Our income tax expense decreased by RMB4.1 million from RMB34.8 million to RMB30.7 million, primarily due to decrease in taxable income of certain subsidiaries.

Loss for the year

As a result of the foregoing, our loss for the year decreased by 63.4% from RMB5.8 billion in 2021 to RMB2.1 billion in 2022.

Year Ended 31 December 2021 Compared to Year Ended 31 December 2020

Revenue

Our revenue increased by 33.9% from RMB8.8 billion in 2020 to RMB11.7 billion in 2021, primarily due to a substantial increase in revenue from automotive products and services.

Revenue from automotive products and services increased by 32.7% from RMB8.3 billion in 2020 to RMB11.1 billion in 2021, primarily due to (i) a 46.7% increase in revenue from auto maintenance products and services from RMB2.6 billion in 2020 to RMB3.8 billion in 2021, in particular, the revenue from sale of motor oil and related services increased from RMB1.3 billion to RMB1.9 billion with the sales volume of motor oil products increased by 49.5% from 27.1 million liters to 40.5 million liters, (ii) a 20.5% increase in revenue from sale of tires and chassis parts and related installation services from RMB4.2 billion in 2020 to RMB5.1 billion in 2021, in particular, the revenue from sale of tires and related services increased from RMB4.0 billion to RMB4.7 billion with the sales volume of tires products increased by 21.3% from 10.8 million units to 13.1 million units, both mainly driven by the growing customer base and the expansion of our store network, and (iii) a 58.0% increase in revenue from our auto parts sold through Qipeilong from RMB959.0 million in 2020 to RMB1.5 billion in 2021, in line with the expansion of our business to better address the comprehensive product needs of store network. The number of Tuhu workshops and partner stores increased from 25,773 as of 31 December 2020 to 35,476 as of 31 December 2021. The number of transacting users increased from 11.0 million in 2020 to 14.8 million in 2021.

Revenue from advertising, franchise and other services increased by 59.3% from RMB413.1 million in 2020 to RMB658.0 million in 2021, primarily due to (i) an increase in revenue from franchise services, in line with the expansion of franchised Tuhu workshops network from 2,323 franchised Tuhu workshops as of 31 December 2020 to 3,658 as of 31 December 2021, and (ii) an increase in revenue from our NEV initiatives.

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Cost of revenue

Our cost of revenue increased by 28.4% from RMB7.7 billion in 2020 to RMB9.9 billion in 2021. The increase was primarily attributable to (i) a 40.1% increase in cost of auto maintenance products and services from RMB2.0 billion in 2020 to RMB2.8 billion in 2021, (ii) a 18.9% increase in cost of sale of tires and chassis parts and related installation services from RMB3.9 billion in 2020 to RMB4.6 billion in 2021, and (iii) a 44.5% increase in cost of auto parts sold through Qipeilong from RMB952.1 million in 2020 to RMB1.4 billion in 2021. The increases mentioned in (i), (ii) and (iii) were primarily due to an increase in products and service sales, partially offset by (a) improved margin profile as a result of changes in products and services category mix, in particular, as revenue from auto maintenance products and services — which generally have higher margins — as a percentage of revenue from automotive products and services increased from 31.4% in 2020 to 34.7% in 2021, whereas revenue from tires and chassis products and services — which generally have lower margins — as a percentage of revenue from automotive products and services decreased from 50.4% to 45.8%, (b) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth, and (c) revenue contribution from exclusive products increased from 26.3% in 2020 to 32.9% in 2021; revenue contribution from private label products increased from 9.8% in 2020 to 16.3% in 2021.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 73.2% from RMB1.1 billion in 2020 to RMB1.9 billion in 2021. Our overall gross margin improved from 12.3% to 16.0% during the same period.

Other income and gains, net

Our net other income and gains increased from RMB114.5 million in 2020 to RMB121.5 million in 2021. The increase was primarily due to the increase in government grants awarded by the local governments to support our operation, partially offset by (i) a RMB48.5 million decrease in the one-off gain recognised from our investment in an associate jointly invested by ExxonMobil through contribution of software from RMB76.5 million in 2020 to RMB28.0 million in 2021, and (ii) a decrease in net foreign exchange gains, primarily because the exchange rate of U.S. dollar against Renminbi experienced relatively large volatility during the same period.

Operations and support expenses

Our operations and support expenses increased by 112.2% from RMB308.3 million in 2020 to RMB654.1 million in 2021, which was mainly due to the increase in staff cost (including share-based payment expenses) from RMB249.1 million in 2020 to RMB562.9 million in 2021 as a result of additional personnel recruited to strengthen store management and supervision, as we expanded into the tier 2 and below cities and counties and launched new products and services. The number of

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our operations and support staff increased from 1,614 (being the average of the number of our operations and support staff as of 1 January 2020 and as of 31 December 2020) to 2,448 (being the average of the number of our operations and support staff as of 1 January 2021 and as of 31 December 2021). In addition, the COVID-19 pandemic affected the performance-based bonuses of store management and supervision personnel in the first half of 2020 and we enjoyed social insurance payment reductions and exemptions in 2020, both of which contributed to the period-over-period increase in operations and support expenses.

Research and development expenses

Our research and development expenses increased by 67.7% from RMB369.5 million in 2020 to RMB619.6 million in 2021, mainly attributable to a RMB199.8 million increase in research and development personnel cost (including share-based payment expenses), which was mainly due to (a) the growth of our research and development team from 862 (being the average of the number of our research and development team as of 1 January 2020 and as of 31 December 2020) to 974 (being the average of the number of our research and development team as of 1 January 2021 and as of 31 December 2021), as we continue to strengthen our technological capabilities and explore new products and services, (b) the increase in average salaries of research and development personnel as part of efforts to attract and retain research and development talents, and (c) the increase in social insurance payment for our research and development personnel in 2021 as we ceased to enjoy the social insurance payment reductions and exemptions granted by local governmental authorities as part of the COVID-19 relief measures. In addition, as majority of the newly recruited research and development personnel joined us in or around the end of June 2020, we started recording their personnel cost since the end of second quarter of 2020, which also contributed to the period-over-period increase in research and development expenses.

Selling and marketing expenses

Our selling and marketing expenses increased by 33.1% from RMB1.3 billion in 2020 to RMB1.7 billion in 2021, which was mainly due to (i) a RMB231.9 million increase in advertising and promotion-related expenses as part of our continuing investments in marketing to further enhance our brand recognition, in line with our growing business scale, (ii) a RMB127.4 million increase in shipping expenses incurred in relation to the delivery of automotive products among warehouses and stores as our business scales, and (iii) a RMB50.6 million increase in staff cost (including share-based payment expenses) primarily as a result of (a) the increased number of customer service personnel from 625 (being the average of the number of customer service personnel as of 1 January 2020 and as of 31 December 2020) to 676 (being the average of the number of customer service personnel as of 1 January 2021 and as of 31 December 2021) as we continue to optimise customer experience, and (b) the increase in social insurance payment for our employees in 2021 as we ceased to enjoy the social insurance payment reductions and exemptions granted by local governmental authorities as part of the COVID-19 relief measures.

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General and administrative expenses

Our general and administrative expenses increased by 81.7% from RMB193.1 million in 2020 to RMB351.0 million in 2021, which was mainly due to the increase in personnel related expenses (including share-based payment expenses) from RMB93.6 million in 2020 to RMB195.8 million in 2021 as (i) the personnel involved in general and administrative functions increased from 323 (being the average of the number of personnel involved in general and administrative functions as of 1 January 2020 and as of 31 December 2020) to 371 (being the average of the number of personnel involved in general and administrative functions as of 1 January 2021 and as of 31 December 2021) in line with our growing business, (ii) we raised the average salaries of personnel involved in general and administrative functions as part of our efforts to attract and retain talents, and (iii) we ceased to enjoy the social insurance payment reductions and exemptions granted by local governmental authorities as part of the COVID-19 relief measures.

Finance income

Our finance income slightly increased by 0.4% from RMB63.2 million in 2020 to RMB63.5 million in 2021, which was mainly due to increase in average balance of time deposits in 2021, partially offset by slight decrease in annualised interest rate of time deposits during that period.

Finance costs

Our finance costs increased by 30.0% from RMB50.5 million in 2020 to RMB65.7 million in 2021, which was mainly due to (i) the transaction costs we incurred for the issuance of convertible redeemable preferred shares in 2021, and (ii) the increase in the interest on lease liabilities in line with the expansion of front distribution centres and self-operated Tuhu workshops in certain cities.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were a loss of RMB4.4 billion in 2021, as compared to a loss of RMB3.0 billion in 2020. The changes in the fair value of our convertible redeemable preferred shares were primarily attributable to the increase in our Company's valuation. See Note 34 to the Accountants' Report in Appendix I to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Income tax expense

Our income tax expense increased by 41.6% from RMB24.6 million to RMB34.8 million, primarily due to increase in taxable income of certain subsidiaries.

Loss for the year

As a result of the foregoing, our loss for the year increased by 48.8% from RMB3.9 billion in 2020 to RMB5.8 billion in 2021.

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Year Ended 31 December 2020 Compared to Year Ended 31 December 2019

Revenue

Our revenue increased by 24.3% from RMB7.0 billion in 2019 to RMB8.8 billion in 2020, which was primarily due to a substantial increase in revenue from automotive products and services, partially offset by the impact of COVID-19 pandemic.

Revenue from automotive products and services increased by 22.3% from RMB6.8 billion in 2019 to RMB8.3 billion in 2020, which was primarily due to (i) a 40.0% increase in revenue from auto maintenance products and services from RMB1.9 billion in 2019 to RMB2.6 billion in 2020, in particular, the revenue from sale of motor oil and related services increased from RMB856.4 million to RMB1.3 billion with the sales volume of motor oil products increased by 61.4% from 16.8 million liters to 27.1 million liters, (ii) a 9.5% increase in revenue from sale of tires and chassis parts and related installation services from RMB3.8 billion in 2019 to RMB4.2 billion in 2020, in particular, the revenue from sale of tires and related services increased from RMB3.7 billion to RMB4.0 billion with the sales volume of tires products increased by 11.0% from 9.7 million to 10.8 million, both mainly driven by the growing customer base and the expansion of our store network, and (iii) a 55.9% increase in revenue from our auto parts sold through Qipeilong from RMB614.9 million in 2019 to RMB959.0 million in 2020, in line with the expansion of its business to better address the comprehensive product needs of store network. The number of Tuhu workshops and partner stores increased from 20,166 as of 31 December 2019 to 25,773 as of 31 December 2020. The number of transacting users increased from 8.6 million in 2019 to 11.0 million in 2020.

Revenue from advertising, franchise and other services increased by 86.6% from RMB221.4 million in 2019 to RMB413.1 million in 2020, which was primarily due to (i) an increase in revenue from franchise services, in line with the expansion of franchised Tuhu workshops network from 1,296 franchised Tuhu workshops as of 31 December 2019 to 2,323 as of 31 December 2020, and (ii) an increase in advertising services to brand owners, primarily driven by our enhanced brand recognition and influence.

Cost of revenue

Our cost of revenue increased by 17.7% from RMB6.5 billion in 2019 to RMB7.7 billion in 2020, at a pace slower than the growth of our revenue. The increase was primarily attributable to (i) a 36.7% increase in cost of auto maintenance products and services from RMB1.5 billion in 2019 to RMB2.0 billion in 2020, (ii) a 56.6% increase in cost of auto parts sold through Qipeilong from RMB607.9 million in 2019 to RMB952.1 million in 2020, and (iii) 5.0% increase in cost of sale of tires and chassis parts and related installation services from RMB3.7 billion in 2019 to RMB3.9 billion in 2020. The increases mentioned in (i), (ii) and (iii) were primarily due to an increase in products and service sales, partially offset by (a) changes in products and services category mix, in particular, as the revenue from auto maintenance products and services — which generally have lower procurement costs and higher margins — as a percentage of revenue from

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automotive products and services increased from 27.4% in 2019 to 31.4% in 2020, whereas revenue from tires and chassis products and services — which generally have lower margins — as a percentage of revenue from automotive products and services decreased from 56.3% to 50.4%, (b) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth and (c) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products. Revenue contribution from exclusive products increased from 17.5% in 2019 to 26.3% in 2020; revenue contribution from private label products increased from 4.7% in 2019 to 9.8% in 2020.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 106.3% from RMB523.4 million in 2019 to RMB1.1 billion in 2020. Our overall gross margin improved from 7.4% to 12.3% during the same periods.

Other income and gains, net

Our net other income and gains changed from gain of RMB11.6 million in 2019 to gains of RMB114.5 million in 2020. The increase in 2020 was primarily attributable to the one-off gain of RMB76.5 million from our investment in an associate jointly invested by ExxonMobil through contribution of software recorded in 2020.

Operations and support expenses

Our operations and support expenses increased by 42.6% from RMB216.2 million in 2019 to RMB308.3 million in 2020, which was mainly due to the increase in staff cost (including share-based payment expenses) from RMB175.1 million in 2019 to RMB249.1 million in 2020 as a result of additional personnel recruited to strengthen store management and supervision, as we expanded into the tier 2 and below cities and counties and launched new products and services.

Research and development expenses

Our research and development expenses increased by 65.5% from RMB223.3 million in 2019 to RMB369.5 million in 2020, mainly attributable to a RMB120.9 million increase in research and development personnel cost (including share-based payment expenses), which was mainly due to (a) the growth of our research and development team from 621 (being the average of the number of our research and development team as of 1 January 2019 and as of 31 December 2019) to 862 (being the average of the number of our research and development team as of 1 January 2020 and as of 31 December 2020), as we continue to strengthen our technological capabilities and explore new products and services, and (b) the increase in average salaries of research and development personnel as part of efforts to attract and retain research and development talents.

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Selling and marketing expenses

Our selling and marketing expenses increased by 21.3% from RMB1.0 billion in 2019 to RMB1.3 billion in 2020, which was mainly due to (i) a RMB74.6 million increase in staff cost (including share-based payment expenses) mainly as a result of the increased customer service personnel as we continue to optimise customer experience, (ii) a RMB58.3 million increase in shipping expenses incurred in relation to the delivery of automotive products among warehouses and stores as our business scales, and (iii) a RMB46.9 million increase in advertising and promotion-related expenses, in particular, our continuing investments in marketing to further enhance our brand recognition, in line with our growing business scale.

General and administrative expenses

Our general and administrative expenses decreased by 2.4% from RMB197.9 million in 2019 to RMB193.1 million in 2020, which was mainly due to the decrease in share-based payment expenses, which reflected our effort to normalise our hiring and ESOP grant practises, partially offset by an increase in personnel related expenses as we recruited additional personnel to support our growing business and an increase in consulting fees in connection with our financing activities.

Finance income

Our finance income increased by 51.6% from RMB41.7 million in 2019 to RMB63.2 million in 2020, which was mainly due to increase in average balance of time deposits in 2020 and relatively higher annualised interest rate of time deposits during that period.

Finance costs

Our finance costs increased by 91.4% from RMB26.4 million in 2019 to RMB50.5 million in 2020, which was mainly due to the increase in interest expenses, mainly attributable to the increased short-term bank borrowings in 2020, partially offset by the decrease in transaction costs for the issuance of convertible redeemable preferred shares.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were a loss of RMB3.0 billion in 2020, as compared to a loss of RMB1.9 billion in 2019. The changes in the fair value of our convertible redeemable preferred shares were primarily attributable to the increase in our Company's valuation. See Note 34 to the Accountants' Report in Appendix I to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Loss on repurchase of convertible redeemable preferred shares

We recorded loss on repurchase of convertible redeemable preferred shares of RMB363.9 million in 2019, which represents our one-off repurchase of convertible redeemable preferred shares as a result of withdrawals by certain investors in 2019.

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Income tax expense

Our income tax expense increased by 138.7% from RMB10.3 million to RMB24.6 million, primarily due to the increase in taxable income of certain subsidiaries.

Loss for the year

As a result of the foregoing, our loss for the year increased by 14.6% from RMB3.4 billion in 2019 to RMB3.9 billion in 2020.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The table below sets forth selected information from our consolidated statements of balance sheets as of the dates indicated.

	As of 31 December				As of
	2019	2020	2021	2022	31 March
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
ASSETS					
Non-Current assets:					
Property, plant and equipment	206,529	284,297	539,143	671,032	712,930
Right-of-use assets	322,890	424,150	517,581	467,714	444,615
Goodwill ⁽¹⁾	—	14,789	15,820	15,820	15,820
Other intangible assets ⁽²⁾	1,390	46,353	63,113	69,975	70,089
Financial investments at fair value					
through profit or loss	31,943	145,963	201,038	227,120	236,413
Investment in joint ventures	—	—	—	115,375	113,241
Investments in associates	48,089	207,625	194,224	163,694	168,717
Equity investments designated at fair value through other comprehensive income	—	—	—	289,312	322,892
Restricted cash and time deposits	25,000	300,000	480,000	403	115,003
Other non-current assets	24,834	33,286	74,944	87,825	124,132
Total non-current assets	660,675	1,456,463	2,085,863	2,108,270	2,323,852
Current assets:					
Inventories	1,046,812	1,483,537	1,713,513	1,542,547	1,555,808
Trade receivables	155,614	280,510	202,990	173,731	195,827
Prepayments, other receivables and other assets	256,576	555,593	539,472	456,257	458,456
Financial assets at fair value through profit or loss	1,748,715	692,368	320,362	25,921	48,013

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	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
Restricted cash and time deposits . . .	821,157	3,400,888	3,497,661	2,021,037	1,739,702
Cash and cash equivalents	1,474,876	1,164,958	1,472,293	2,686,353	2,815,580
Total current assets	5,503,750	7,577,854	7,746,291	6,905,846	6,813,386
LIABILITIES					
Current liabilities:					
Trade and bills payables	1,683,398	2,808,434	3,240,321	3,119,324	3,231,297
Other payables and accruals	698,032	962,270	1,463,777	1,566,010	1,524,310
Contract liabilities	215,353	382,463	558,999	653,045	634,632
Interest-bearing borrowings	—	2,016,915	264,000	—	—
Tax payable	10,301	34,884	67,517	97,225	97,816
Lease liabilities	115,360	132,283	148,379	136,595	128,894
Total current liabilities	2,722,444	6,337,249	5,742,993	5,572,199	5,616,949
Non-Current liabilities:					
Convertible redeemable preferred shares	9,499,531	11,900,562	18,609,227	21,726,488	21,732,634
Contract liabilities	71,636	109,468	115,056	60,268	53,502
Lease liabilities	181,881	252,468	282,873	203,735	190,456
Deferred tax liabilities	—	10,333	10,333	10,333	10,333
Other non-current liabilities	184,216	329,780	436,046	397,657	404,797
Total non-current liabilities	9,937,264	12,602,611	19,453,535	22,398,481	22,391,722
Net current assets	2,781,306	1,240,605	2,003,298	1,333,647	1,196,437
Net liabilities	(6,495,283)	(9,905,543)	(15,364,374)	(18,956,564)	(18,871,433)
EQUITY					
Non-controlling interests	—	3,861	2,337	195	(186)

Notes:

- (1) Goodwill primarily represents goodwill arising from acquisitions of the equity interests in two companies engaged in automotive products and services, namely Xi'an Jushuohua Automobile Technology Co. Ltd. and Xiangming (Shanghai) Automotive Technology Service Co., Ltd. For the impairment testing of goodwill, see Note 18 to the Accountants' Report in Appendix I.
- (2) Other intangible assets primarily consist of an insurance brokerage licence we acquired in 2020 and software. For the impairment testing of other intangible assets, see Note 19 to the Accountants' Report in Appendix I.

We recorded net liabilities of RMB6.5 billion, RMB9.9 billion, RMB15.4 billion, RMB19.0 billion and RMB18.9 billion, as of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, respectively, primarily due to the significant amounts of convertible redeemable preferred shares recorded as liabilities. Our convertible redeemable preferred shares will be re-designated from

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liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing, after which we do not expect to recognise any further loss or gain on changes in fair value of convertible redeemable preferred shares and will return to a net assets position from a net liabilities position. For the discussion on net current assets, see “— Liquidity and Capital Resources—Net Current Assets” in this section.

Inventories

Our inventories primarily include tires and chassis parts, motor oil, accessories and other auto products used for maintenance, car wash, car detailing and repairs. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, our inventories were RMB1.0 billion, RMB1.5 billion, RMB1.7 billion, RMB1.5 billion and RMB1.6 billion, respectively. The increases from 2019 to 2021 was primarily due to the growth of our business and operation. The decrease from 31 December 2021 to 31 December 2022 because we paced the procurement of merchandise in 2022 in light of the COVID-19 resurgence in China. The increase from 31 December 2022 to 31 March 2023 was primarily due to the increased procurement of merchandise in line with the post-COVID-19 business recovery. Inventory turnover days for a given period are equal to the average balances of inventories, net of provision for inventory write-down, at the beginning and at the end of the period divided by cost of sales during the period and multiplied by the number of days during the period. Our inventory turnover days increased from 45 days in 2019 to 60 days in 2020 and decreased to 59 days in 2021, further changed to 64 days in 2022, and decreased to 56 days in the three months ended 31 March 2023. The increase from 2019 to 2020 was primarily due to (i) the expansion of Qipeilong business as products sold through Qipeilong generally have slower turnover, and (ii) the increased proportion of maintenance business among our overall business as products used in connection with maintenance services have slower turnover. The slightly higher turnover days in 2020, as compared to 2021, were primarily due to our continued efforts to improve inventory management. The increase from 2021 to 2022 was primarily due to slower sales and supply chain disruption caused by the COVID-19 resurgence. The decrease from 2022 to the three months ended 31 March 2023 was primarily due to post-COVID-19 business recovery. Our inventory balances typically increase when we prepare for special promotion events, such as the promotional campaigns around 18 June and 11 November each year, and before Chinese New Year Holiday, as factories and logistics companies may be shut down or reduce manpower during the holidays.

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The following table sets forth the aging analysis of the inventories, net of provision, as of the dates indicated.

	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
1-12 months	1,031,009	1,449,309	1,620,146	1,419,049	1,443,397
1-2 years	15,803	34,228	93,367	123,498	112,411
	1,046,812	1,483,537	1,713,513	1,542,547	1,555,808

Our management reviews the condition of inventories, at each reporting date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. We carry out the inventory review on a product-by-product basis and make allowances with reference to the latest market prices and current market conditions. We believe there is no recoverability issue for inventories aged between 1 to 2 years, primarily because majority of the inventories aged between 1 to 2 years are auto maintenance products with shelf life of 3 to 5 years. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, sufficient provision has been made with regard to the inventories aged between 1-2 years, which amounted to RMB11.7 million, RMB21.4 million, RMB41.4 million, RMB62.9 million and RMB61.6 million, respectively.

As of 31 July 2023, RMB1,045.9 million, representing 67.2% of our inventories as of 31 March 2023 was subsequently utilized.

Trade receivables

Our trade receivables represent primarily (i) trade receivables from franchised Tuhu workshops and third-party auto dealers for payment of auto products sourced from Qipeilong platform, (ii) trade receivables from certain key account customers for bulk purchase of automotive services, (iii) trade receivables from franchised Tuhu workshops in connection with the franchises services we provide and (iv) trade receivables from brand owners in connection with the advertising services we provide. Trade receivables from franchised Tuhu workshops arise when our franchised Tuhu workshops use Qipeilong platform to source products that are not available in our regional distribution centres for future end-customer orders. We deliver the auto products directly to the franchised Tuhu workshops and book sales to them. Those auto products are in stock at franchised Tuhu workshops for future sales to end-customers. After the franchised Tuhu workshops sell the auto products to the end-customers, we settle with the franchised Tuhu workshops periodically. Trade receivables from third-party auto dealers arise primarily when they make bulk purchases of auto products from us through Qipeilong. Trade receivables arise as we generally offer credit terms to customers on Qipeilong platform, which result in the time interval between the sales and delivery of auto products to the franchised Tuhu workshops and third-party auto dealers, and the payment from such franchised Tuhu

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workshops and third-party auto dealers to us. For detailed illustration of transactions and fund flow, including diagrams, see “Business—Our Product and Service Offerings—Qipeilong.” As to trade receivables from bulk purchases, our key account customers include insurance companies and commercial banks that make bulk purchases of our automotive maintenance service vouchers and offer them to their individual customers. Holders of such vouchers can use them to make service appointment directly with us to be served by our Tuhu workshops and partner stores. The vouchers generally have a valid term of one year for redemption. These key account customers generally have credit terms with us and settle with us periodically.

The below table sets forth the breakdown of trade receivables as of the dates indicated.

	As of 31 December				As of
					31 March
	2019	2020	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
Trade receivables from bulk sales to key account customers ⁽¹⁾	73,254	84,173	87,754	65,289	85,609
Trade receivables from sales on Qipeilong ⁽²⁾	24,249	65,229	50,640	27,788	30,339
Trade receivables from franchise services	22,920	68,448	21,346	38,886	44,101
Trade receivables from advertising services	21,221	46,097	37,235	37,659	31,905
Others	32,511	28,025	18,632	19,354	19,841
Allowance for expected credit losses	<u>(18,541)</u>	<u>(11,462)</u>	<u>(12,617)</u>	<u>(15,245)</u>	<u>(15,968)</u>
Total	<u>155,614</u>	<u>280,510</u>	<u>202,990</u>	<u>173,731</u>	<u>195,827</u>

Notes:

- (1) Trade receivables from bulk sales to key account customers primarily represent trade receivables from bulk sales of service vouchers to key account customers. There are two forms of sales of service vouchers, i.e., pay-by-consumption and prepaid service voucher. Majority of the sales are in the form of pay-by-consumption. Under pay-by-consumption scenario, the key account customer places an order for the vouchers without upfront payment, and only makes payment when these vouchers are subsequently redeemed by the individual end-customers on an actual consumption basis. We generally settle with key account customers on monthly basis under pay-by-consumption scenario. Under prepaid service voucher scenario, key account customers make bulk purchases of vouchers with non-refundable upfront payment, and then subsequently distribute such vouchers to individual end-customers for consumption.
- (2) Trade receivables from sales on Qipeilong primarily consist of receivables from franchised Tuhu workshops and third-party auto dealers for payment of auto products sourced from Qipeilong platform.

As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, our trade receivables, net of allowance for expected credit losses, were RMB155.6 million, RMB280.5 million, RMB203.0 million, RMB173.7 million and RMB195.8 million, respectively. The increase from 2019 to 2020 was primarily due to the growth of our Qipeilong business and the increase in the amount receivable from key account customers for bulk purchase of automotive services as our business grows. The increase from 31 December 2022 to 31 March 2023 was primarily due to the increase in the amount receivable from key account customers for bulk purchase of automotive services in line with the

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post-COVID-19 business recovery. Trade receivables turnover days for a given period are equal to the average balances of trade receivables at the beginning and at the end of the period divided by revenue during the period and multiplied by the number of days during the period. Our trade receivables turnover days increased from 6 days in 2019 to 9 days in 2020 and decreased to 8 days in 2021, to 6 days in 2022, and further to 5 days in the three months ended 31 March 2023. The increase in turnover days from 2019 to 2020 was primarily due to temporarily extended settlement cycles with stores as we were expanding Qipeilong business. We have adopted automated reconciliation and settlement system for Qipeilong business since the end of 2020 to improve our settlement management, which contributed to the decrease in turnover days from 2020 to 2022 and further to the three months ended 31 March 2023.

The following table sets forth the aging analysis of the trade receivables by transaction date as of the dates indicated.

	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
Within 1 month	91,343	151,403	121,223	97,911	118,833
2 to 3 months	47,217	32,421	39,169	44,354	34,817
4 to 6 months	8,719	53,400	36,927	22,988	31,171
7 to 12 months	8,335	43,286	5,671	8,478	11,006
	<u>155,614</u>	<u>280,510</u>	<u>202,990</u>	<u>173,731</u>	<u>195,827</u>

The following table sets forth the aging analysis of the trade receivables by due date as of the dates indicated.

	As of 31 December				As of 31 March	Subsequently settled as of 31 July ⁽¹⁾	
	2019	2020	2021	2022	2023	2023	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	%
	<i>(in thousands, except for percentage data)</i>						
	<i>(unaudited)</i>						
Not past due	91,532	151,974	122,085	99,473	120,278	110,870	92.2
Overdue < 3 months	52,388	81,950	56,871	54,214	49,833	35,696	71.6
Overdue 3 to 6 months	4,679	27,641	19,764	14,280	18,369	12,739	69.4
Overdue 7 to 12 months	7,015	18,945	4,270	5,764	7,347	5,423	73.8

Note:

(1) Represents the amounts and percentages of subsequent settlement of trade receivables in such aging group as of 31 March 2023.

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As of 31 July 2023, RMB164.7 million, representing 84.1% of our trade receivables as of 31 March 2023 was subsequently settled. The unsettled trade receivables primarily represent receivables from insurance companies. We generally grant a 30-day credit period. Towards the end of the credit period, we reconcile the accounts with the insurance companies first. The payment by the insurance companies will be made after the account reconciliation is completed. The insurance companies generally need longer time to carry out the account reconciliation and internal payment approval process, which result in slower payments. We have set up a settlement team to settle accounts receivables in a timely manner. If there is any delayed payment, the account manager in charge of the customer will follow up closely with the customer.

We believe that there is no material recoverability issue for our trade receivables, as we mainly grant credit terms to high quality customers. In addition, the trade receivables turnover days during the Track Record Period remain relatively low and we had made sufficient provisions accordingly. The amount of provision for trade receivables is measured by applying a scientific assessment model, in which various considerations have been accounted for under the expected credit losses model, such as the future economic forecasts, credit risk of debtors, historical data, impact of the COVID-19 pandemic that is available at the assessment date and inflation rate. We consider the assessment model has provided a concrete basis to formulate the amount of provision. Moreover, we have a dedicated team responsible for monitoring trade receivables from our customers, and we take proactive measures to ask our customers to settle long-term uncollected receivables in a timely manner. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, 94.6%, 84.6%, 97.2%, 95.1% and 94.4% of our trade receivables, net of allowance for expected credit losses, aged within six months and our customers during the Track Record Period had a track record of timely payments to us.

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Prepayments, other receivables and other assets

Our prepayments, other receivables and other assets primarily include (i) advances to suppliers for purchase of goods and services, such as tires, (ii) deposits and other receivables, which mainly consist of lease deposits in connection with leased warehouses and offices, and (iii) VAT recoverable. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, our prepayments, other receivables and other assets were RMB256.6 million, RMB555.6 million, RMB539.5 million, RMB456.3 million and RMB458.5 million, respectively. The below table sets forth the breakdown of prepayments, other receivables and other assets as of the dates indicated.

	As of 31 December				As of
	2019	2020	2021	2022	31 March 2023
	<i>(RMB in thousands)</i>				
Prepayments	145,884	306,904	182,959	157,637	156,257
Deposits and other receivables	39,461	100,382	126,650	127,610	127,244
VAT recoverable	54,238	97,984	174,065	148,157	164,869
Loans receivable ⁽¹⁾	8,159	39,052	42,784	22,727	10,229
Receivable from employees	9,163	11,796	13,358	3,070	4,184
Impairment allowance	(329)	(525)	(344)	(2,944)	(4,327)
Total	<u>256,576</u>	<u>555,593</u>	<u>539,472</u>	<u>456,257</u>	<u>458,456</u>

Note:

- (1) Loans receivable primarily consists of receivable in relation to direct loans and entrusted loans to certain franchised Tuhu workshops and franchisees. For entrusted loans, we entrust commercial banks to provide loans to franchised Tuhu workshops and franchisees and generally charge interests ranging from 4% to 12% per annum. Our PRC Legal Advisor is of the view that such entrusted loan arrangements are in compliance with the relevant PRC laws and regulations. For direct loans, we currently do not charge interests. Historically, we provided interest bearing direct loans to some of our franchised Tuhu workshops and franchisees. As of the Latest Practicable Date, outstanding balance of the interest bearing loans directly provided by us was nil. Thus, our PRC Legal Advisor is of the view that such direct loan arrangements are not prohibited by any applicable PRC laws and regulations. For details, see “Risk Factors—Risks Related to Our Business and Industry—Failure to obtain, renew, or retain licences, permits or approvals may affect our ability to conduct or expand our business.”

The increase from 2019 to 2020 was primarily due to increase in prepayments to suppliers as our business scales up. The decrease from 2020 to 2021 was primarily due to the decrease in prepayments to suppliers as we obtained more favourable credit terms from them, partially offset by the increases in VAT recoverable and lease deposits in line with our business growth. Specifically, some suppliers started to allow payment upon delivery in 2021. The decrease from 31 December 2021 to 31 December 2022 was primarily due to the decreases in VAT recoverable, prepayments to suppliers as we paced the procurement of merchandise in 2022 in light of the COVID-19 resurgence in China, and loans receivable as we received repayments from the borrowers. The slight increase from 31 December 2022 to 31 March 2023 was primarily due to increase in the VAT recoverable,

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partially offset by the decrease in loans receivable as we ceased to extend new entrusted loans in light of the post-COVID-19 business recovery and received repayments from certain borrowers.

As of 31 July 2023, RMB294.5 million, representing 64.2% of our prepayments, other receivables and other assets as of 31 March 2023 was subsequently settled.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss primarily represent wealth management products issued by commercial banks. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, our financial assets at fair value through profit or loss were RMB1.7 billion, RMB692.4 million, RMB320.4 million, RMB25.9 million and RMB48.0 million, respectively. The decrease from 2019 through 2021 was primarily because we allocated more funds in time deposits instead of short-term wealth management products as there was increase in the proportion of funds denominated in US dollars at our hand as compared to funds denominated in RMB and we generally allocate funds denominated in US dollars in time deposits which bear lower risks as compared to wealth management products. The further decrease from 2021 to 2022 was primarily because we allocated more funds in demand deposits instead of short-term wealth management products. The increase from 31 December 2022 to 31 March 2023 was because we purchased certain short-term wealth management products in the three months ended 31 March 2023.

During the Track Record Period, our wealth management products primarily include structured deposits and other wealth management products. The risk exposure from the structured deposits mainly involves the fluctuation in the rates of return. The risk exposure from other wealth management products is primarily that neither the principal nor the returns are protected or guaranteed by the relevant issuers. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, a majority of the wealth products we purchased are due on demand. During the Track Record Period, the structured deposits and other wealth management products we purchased did not have material decline in market value.

To monitor and control the investment risks associated with our wealth management product portfolio, we have adopted a comprehensive set of internal procedures to manage our investment in wealth management products. With the authorization of the Board, our management is responsible for carrying out the investment plans with respect to structured deposits and other wealth management products in accordance with our cash management policies and internal approval process. Supervised by Mr. Zhang Zhisong, the chief financial officer of the Group who has been supervising our investment activities and was highly involved in our historical investments, our finance department proposes, analyses and evaluates potential investment in wealth management products based on recommendations of our relationship and account managers at reputable banks in China. Prior to making any material investments in wealth management products or modifying our existing investment portfolio, the proposal shall be approved by Mr. Zhang and his designated senior member of our management. In assessing the wealth management products, we apply a number of standards, including (i) investment in high risk products are prohibited; (ii) the primary objectives of

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investment activities focus on minimising the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, while generating desirable investment returns for the benefits of our Shareholders; (iii) the proposed investment must not interfere with our business operations or capital expenditures; and (iv) the wealth management products should be issued by a reputable bank. We primarily invest in wealth management products issued by major commercial banks in China with low risks and a short-to mid-term of no more than one year. We make investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions, risk control and credit of issuing banks, our own working capital conditions, and the expected profit or potential loss of the investment. Additionally, our Board adopted a variety of procedures in relation to the valuation of our financial assets. For details of those procedures, see “—Critical Accounting Policies and Estimates— Significant Accounting Judgements and Estimates— Level 3 of Fair Value Measurement.” Going forward, we intend to invest in wealth management products with low risks on a case by case basis if such products are in our Group’s interest upon thorough evaluations and analyses. Mr. Zhang has nearly 15 years of experience in finance. For other relevant qualifications and experience of our chief financial officer, see “Directors and Senior Management.” In addition, we have a professional and efficient financial management team. The team members have professional certifications, such as CPA and ACCA, as well as financial and cash management capabilities with prior working experience in renowned multi-national enterprises and accounting firms. They also have experience in the identification, calculation, reduction of risk exposure, and evaluation of the effectiveness of risk management, to ensure stable return on investments in wealth management products.

After Listing, our investments in wealth management products will be subject to compliance with Chapter 14 of the Listing Rules.

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Cash and bank balances

Our cash and bank balances primarily consist of cash and cash equivalents, time deposits and restricted cash. The restricted cash primarily consists of security deposits held in designated bank accounts for issuance of bills payable and short-term borrowings. The below table sets forth the breakdown of cash and bank balances as of the dates indicated.

	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
Current					
Cash and cash equivalents	1,474,876	1,164,958	1,472,293	2,686,353	2,815,580
Time deposits with maturities over three months	223,479	307,528	1,017,365	514,115	471,793
Restricted cash current portion	<u>597,678</u>	<u>3,093,360</u>	<u>2,480,296</u>	<u>1,506,922</u>	<u>1,267,909</u>
	<u>2,296,033</u>	<u>4,565,846</u>	<u>4,969,954</u>	<u>4,707,390</u>	<u>4,555,282</u>
Non-current					
Time deposits with maturities over one year	25,000	—	380,000	—	—
Restricted cash non-current portion	<u>—</u>	<u>300,000</u>	<u>100,000</u>	<u>403</u>	<u>115,003</u>
	<u>25,000</u>	<u>300,000</u>	<u>480,000</u>	<u>403</u>	<u>115,003</u>
	<u>2,321,033</u>	<u>4,865,846</u>	<u>5,449,954</u>	<u>4,707,793</u>	<u>4,670,285</u>
	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
	<i>(in thousands)</i>				
Denominated in:					
RMB	2,039,459	1,568,854	1,581,566	2,589,850	2,555,199
US\$	<u>281,574</u>	<u>3,296,992</u>	<u>3,868,388</u>	<u>2,117,943</u>	<u>2,115,086</u>
	<u>2,321,033</u>	<u>4,865,846</u>	<u>5,449,954</u>	<u>4,707,793</u>	<u>4,670,285</u>

Investments in joint ventures

Investments in joint ventures represent our investments in two joint ventures, namely, Shanghai Zhisheng Automobile Technology Co., Ltd. (“Shanghai Zhisheng”) and Shanghai Wuqi Private Fund Limited Partnership (“Shanghai Wuqi”). We had investments in joint ventures of nil, nil, nil, RMB115.4 million and RMB113.2 million as of 31 December 2019, 2020, 2021 and 2022 and

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31 March 2023, respectively. Share of loss from Shanghai Zhisheng was RMB3.0 million and RMB1.2 million in 2022 and the three months ended 31 March 2023, respectively, and share of profit from Shanghai Wuqi was RMB13,000 in 2022 and share of loss from Shanghai Wuqi was RMB975,000 in the three months ended 31 March 2023.

Equity investments designated at fair value through other comprehensive income

Equity investments designated at fair value through other comprehensive income represent our investments in the equity securities of certain listed companies. Such investments were irrevocably designated at fair value through other comprehensive income as we consider these investments to be strategic in nature. We had equity investments designated at fair value through other comprehensive income of nil, nil, nil, RMB289.3 million and RMB322.9 million as of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, respectively.

Trade and bills payables

Trade and bills payables represent payable to suppliers from whom we purchase auto products and payable to service providers for services provided. The below table sets forth the breakdown of trade and bills payables as of the dates indicated.

	As of 31 December				As of
	2019	2020	2021	2022	31 March
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
			<i>(in thousands)</i>		
Trade payables	371,536	806,169	1,098,761	808,085	755,207
Bills payable	<u>1,311,862</u>	<u>2,002,265</u>	<u>2,141,560</u>	<u>2,311,239</u>	<u>2,476,090</u>
Total	<u>1,683,398</u>	<u>2,808,434</u>	<u>3,240,321</u>	<u>3,119,324</u>	<u>3,231,297</u>

The increase in our trade and bills payables from 2019 to 2021 was in line with our growing business. The decrease from 2021 to 2022 was primarily because we paced the procurement of merchandise in 2022 in light of the COVID-19 resurgence in China. The increase from 31 December 2022 to 31 March 2023 was primarily because we increased the procurement of merchandise in the first quarter of 2023 in light of the post-COVID-19 business recovery. Trade and bills payables turnover days for a given period are equal to average trade payable balances, net of advance to suppliers balance, at the beginning and at the end of the period divided by total cost of sales during the period and multiplied by the number of days during the period. Our trade and bills payables turnover days increased from 56 days in 2019 to 96 days in 2020, to 103 days in 2021, and further to 118 days in 2022 and decreased to 110 days in the three months ended 31 March 2023. The increases from 2019 through 2022 were primarily due to (i) the longer payment terms with certain suppliers as we used bills for settlement more often since 2020 and bills generally had a longer payment term, and (ii) we managed to increase our credit terms through our continuous efforts to enhance our

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relationship with suppliers. The slight decrease in the three months ended 31 March 2023 was primarily due to the demand from the suppliers for settlement before the Chinese New Year.

The following table sets forth the aging analysis of the trade payables by due date as of the dates indicated.

	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
Not past due	197,706	484,750	931,748	582,466	557,734
Overdue < 3 months	124,306	275,334	82,888	213,556	184,984
Overdue 3 to 6 months	23,591	7,840	71,706	2,428	1,253
Overdue 7 to 12 months	12,715	22,707	5,617	3,533	3,331
Overdue > 1 year	13,218	15,538	6,802	6,102	7,905

As of 31 July 2023, RMB2,568.9 million, representing 79.5% of our trade and bills payables as of 31 March 2023 was subsequently settled. As of 31 July 2023, RMB691.9 million, representing 91.6% of our trade payables as of 31 March 2023 was subsequently settled.

Other payables and accruals

Our other payables and accruals mainly represent salary and welfare payable and other tax payable. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, our other payables and accruals were RMB698.0 million, RMB962.3 million, RMB1.5 billion, RMB1.6 billion and RMB1.5 billion, respectively. The below table sets forth the breakdown of other payables and accruals as of the dates indicated.

	As of 31 December				As of 31 March
	2019	2020	2021	2022	2023
	<i>(RMB in thousands)</i>				
Other tax payable	211,387	287,219	322,768	307,283	294,080
Payroll and welfare payable	221,266	306,621	514,549	539,397	539,901
Accrual and other payables	265,379	368,430	626,460	719,330	690,329
Total	<u>698,032</u>	<u>962,270</u>	<u>1,463,777</u>	<u>1,566,010</u>	<u>1,524,310</u>

The increase from 2019 to 2020 was primarily due to (i) the increase in value-added tax payable due to our growing business and the increase in the withholding individual income tax, and (ii) the increase in salary and welfare payable. The increase from 2020 to 2021 was primarily due to (i) the increase in salary and welfare payable, (ii) the increase in construction in progress in relation

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to certain warehouses, and (iii) the increase in refundable deposits from potential franchisees prior to entering into the franchise agreements in line with our store network expansion. The increases in the withholding individual income tax and salary and welfare payable were both primarily due to the growth of our employee headcount in line with our growing business. The increase from 2021 to 2022 was primarily due to (i) the increase in refundable deposits from potential franchisees prior to entering into the franchise agreements in line with our store network expansion, (ii) the increase in the amounts of payments processed through certain reputable commercial banks as we adjusted our settlement mechanisms in 2022, and (iii) the increase in salary and welfare payable primarily due to the extended payment of social insurance contributions, which was encouraged by local governmental authorities as part of the COVID-19 relief measures, and the increase in the base payment of social insurance contributions, partially offset by the decrease in value-added tax payable due to the decrease in the taxable income in December 2022 as compared to December 2021, as VAT payable was generally affected by the sales in the last month of respective taxable period. The decrease from 31 December 2022 to 31 March 2023 was primarily due to (i) the settlement of promotional expenses to certain suppliers, (ii) reduced outsourced personnel headcount as we adopted a series of measures to reduce costs and increase efficiency, and (iii) the payment of stamp duty incurred in 2022 in compliance with latest regulatory development on stamp duty.

Contract liabilities

Our contract liabilities mainly represent customer advances for automotive products and service sales and deferred upfront franchise fees paid by franchisees. As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, our contract liabilities were RMB287.0 million, RMB491.9 million, RMB674.1 million, RMB713.3 million and RMB688.1 million, respectively. The increases from 2019 to 2021 were primarily due to (i) the increase in customer advances as our business scales up, and (ii) the increase in the deferred upfront franchise fees collected from franchisees as a result of the expansion of franchised Tuhu workshops network. The increase from 2021 to 2022 was primarily due to the increase in customer advances as our business scales up, partially offset by the reductions and exemptions of the deferred upfront franchise fees in 2022 as part of our efforts to penetrate into lower tier cities. The decrease from 31 December 2022 to 31 March 2023 was primarily due to postponed fulfilment of the customer orders placed in December 2022 as a result of the COVID-19 resurgence in December 2022. As of 31 July 2023, RMB372.8 million, representing 54.2% of our contract liabilities as of 31 March 2023 was subsequently recognised as revenue.

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Lease liabilities

Our lease liabilities primarily consist of the commitments under the lease agreements for our self-operated Tuhu workshops, warehouses, and office premises with terms ranging from two to fourteen years. The following table sets forth the maturity profile of our lease agreements as of the dates indicated.

	As of 31 December								As of 31 March	
	2019		2020		2021		2022		2023	
	Outstanding lease liabilities	Number of lease agreements	Outstanding lease liabilities	Number of lease agreements	Outstanding lease liabilities	Number of lease agreements	Outstanding lease liabilities	Number of lease agreements	Outstanding lease liabilities	Number of lease agreements
	<i>(RMB in thousands except number of lease agreements)</i>									
Due within one year	115,360	242	132,283	382	148,379	348	136,595	328	128,894	309
Due after one year but within two years	88,767	193	120,166	254	115,245	219	84,890	207	81,785	191
Due after two years but within five years	84,360	117	112,966	132	134,140	131	101,348	109	96,407	103
Due after five years	8,754	14	19,336	26	33,488	36	17,497	31	12,264	29
Total	<u>297,241</u>	<u>566</u>	<u>384,751</u>	<u>794</u>	<u>431,252</u>	<u>734</u>	<u>340,330</u>	<u>675</u>	<u>319,350</u>	<u>632</u>

As of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, we have outstanding aggregate unpaid contractual lease payments (present value of lease payments for the remainder of relevant lease terms) of RMB297.2 million, RMB384.8 million, RMB431.3 million, RMB340.3 million and RMB319.4 million in relation to the corresponding lease liabilities.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	Total revenue growth rate (%) ⁽¹⁾	N/A	24.3	33.9	(1.5)	N/A
Gross margin (%) ⁽²⁾	7.4	12.3	16.0	19.7	17.9	24.2
Adjusted EBITDA margin (non-IFRS measure) (%) ⁽³⁾	(12.0)	(7.3)	(7.9)	(1.6)	(3.9)	4.9
Adjusted net (loss)/profit margin (non-IFRS measure) (%) ⁽⁴⁾	(14.7)	(10.2)	(10.8)	(4.8)	(7.0)	2.8

Notes:

- (1) Revenue growth rate equals revenue growth divided by revenue for the previous year/period.
- (2) Gross margin equals gross profit divided by revenue during the year/period.

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- (3) Adjusted EBITDA margin equals adjusted EBITDA (non-IFRS measure) divided by revenue during the year/period.
 (4) Adjusted net (loss)/profit margin equals adjusted net (loss)/profit (non-IFRS measure) divided by revenue during the year/period.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we funded our cash requirements principally from proceeds from preferred share issuance, bank borrowings and cash generated from operating activities. We had cash and bank balances of RMB2.3 billion, RMB4.9 billion, RMB5.4 billion, RMB4.7 billion and RMB4.7 billion as of 31 December 2019, 2020, 2021 and 2022 and 31 March 2023, respectively.

Cash Flows

The following table sets forth our cash flows for the periods indicated:

	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Selected Consolidated Cash Flow Data:						
Operating cash flows before movements in working capital	(807,000)	(710,961)	(867,269)	(114,277)	(108,919)	169,484
Changes in working capital	555,461	1,042,253	770,708	(197,475)	(455,159)	15,270
Income tax paid	—	(12)	(2,189)	(959)	(231)	(880)
Net cash flows (used in)/from operating activities	(251,539)	331,280	(98,750)	(312,711)	(564,309)	183,874
Net cash flows (used in)/from investing activities	(1,077,746)	570,808	(917,972)	481,347	626,563	(79,065)
Net cash flows from/(used in) financing activities	1,905,441	(1,041,096)	1,407,937	935,977	(466,697)	47,611
Net increase/(decrease) in cash and cash equivalents	576,156	(139,008)	391,215	1,104,613	(404,443)	152,420
Cash and cash equivalents at the beginning of the year/period	895,706	1,474,876	1,164,958	1,472,293	1,472,293	2,686,353
Effect of foreign exchange rate changes, net	3,014	(170,910)	(83,880)	109,447	(3,609)	(23,193)
Cash and cash equivalents at the end of the year/period ⁽¹⁾	<u>1,474,876</u>	<u>1,164,958</u>	<u>1,472,293</u>	<u>2,686,353</u>	<u>1,064,241</u>	<u>2,815,580</u>

Note:

- (1) The below table sets forth the analysis of balances of cash and cash equivalents for the year/period indicated.

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	For the Year Ended 31 December				For the Three Months Ended 31 March	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				<i>(unaudited)</i>	
Cash and bank balances	2,321,033	4,865,846	5,449,954	4,707,793	4,834,298	4,670,285
Restricted cash and time deposits	(846,157)	(3,700,888)	(3,977,661)	(2,021,440)	(3,770,057)	(1,854,705)
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u>1,474,876</u>	<u>1,164,958</u>	<u>1,472,293</u>	<u>2,686,353</u>	<u>1,064,241</u>	<u>2,815,580</u>

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any other plans for material additional external financing.

Net Cash Flows (Used in)/from Operating Activities

Net cash flows from operating activities in the three months ended 31 March 2023 was RMB183.9 million. The difference between the loss before tax of RMB277.1 million and positive operating cash flow of RMB183.9 million was the result of adjustments for non-cash expenses items of RMB446.5 million, as well as changes in working capital accounts of RMB15.3 million. Adjustments for non-cash expenses items mainly include fair value changes of convertible redeemable preferred shares of RMB298.0 million, share-based payment expenses of RMB66.5 million, depreciation of right-of-use assets of RMB48.5 million and depreciation of property, plant and equipment of RMB38.7 million. The changes in working capital accounts mainly include (i) RMB112.0 million increase in trade and bills payable, and (ii) RMB21.3 million decrease in restricted cash, partially offset by (i) RMB33.5 million decrease in other payables and accruals, (ii) RMB26.5 million increase in inventories, (iii) RMB25.2 million decrease in contract liabilities, (iv) RMB22.8 million increase in trade receivables, and (v) RMB17.5 million increase in prepayments, other receivables and other assets. For the reasons underlying changes in working capital accounts, see “—Discussion of Certain Key Balance Sheet Items.”

Net cash flows used in operating activities in 2022 was RMB312.7 million. The difference between the loss before tax of RMB2.1 billion and negative operating cash flow of RMB312.7 million was the result of adjustments for non-cash expenses items of RMB2.0 billion, as well as changes in working capital accounts of RMB197.5 million. Adjustments for non-cash expenses items mainly include fair value changes of convertible redeemable preferred shares of RMB1.3 billion, share-based payment expenses of RMB219.3 million, depreciation of right-of-use assets of RMB203.4 million and depreciation of property, plant and equipment of RMB156.5 million. The changes in working capital accounts mainly include (i) RMB361.6 million increase in restricted cash, and (ii) RMB121.0 million decrease in trade and bills payable, partially offset by (i) RMB95.2 million increase in other payables and accruals, (ii) RMB87.6 million decrease in inventories, and (iii) RMB66.5 million decrease in

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prepayments, other receivables and other assets. For the reasons underlying changes in working capital accounts, see “—Discussion of Certain Key Balance Sheet Items.”

Net cash flows used in operating activities in 2021 was RMB98.8 million. The difference between the loss before tax of RMB5.8 billion and negative operating cash flow of RMB98.8 million was the result of adjustments for non-cash expenses items of RMB4.9 billion, as well as changes in working capital accounts of RMB770.7 million. Adjustments for non-cash expenses items mainly include fair value changes of convertible redeemable preferred shares of RMB4.4 billion, depreciation of right-of-use assets of RMB181.7 million, depreciation of property, plant and equipment of RMB120.9 million and share-based payment expenses of RMB118.5 million. The changes in working capital accounts mainly include (i) RMB430.4 million increase in trade and bills payable, (ii) RMB390.7 million increase in other payables and accruals, (iii) RMB182.1 million increase in contract liabilities, and (iv) RMB106.3 million increase in other non-current liabilities, partially offset by (i) RMB272.7 million increase in inventories, and (ii) RMB147.9 million increase in restricted cash. For the reasons underlying changes in working capital accounts, see “—Discussion of Certain Key Balance Sheet Items.”

Net cash flows from operating activities in 2020 was RMB331.3 million. The difference between the loss before tax of RMB3.9 billion and positive operating cash flow of RMB331.3 million was the result of adjustments for non-cash expenses items of RMB3.2 billion, as well as changes in working capital accounts of RMB1.0 billion. Adjustments for non-cash expenses items mainly include fair value changes of convertible redeemable preferred shares of RMB3.0 billion, depreciation of right-of-use assets of RMB155.9 million, depreciation of property, plant and equipment of RMB82.5 million and gain from intangible assets contributed to an associate of RMB76.5 million. The gain from intangible assets contributed to an associate of RMB76.5 million mainly relates to our investment in an associate jointly invested by ExxonMobil through contribution of software. The changes in working capital accounts mainly include (i) RMB1.1 billion increase in trade and bills payable, (ii) RMB256.4 million increase in other payables and accruals, and (iii) RMB204.9 million increase in contract liabilities, partially offset by (i) RMB461.8 million increase in inventories, (ii) RMB257.6 million increase in prepayments, other receivables and other assets, and (iii) RMB132.6 million increase in trade receivables. For the reasons underlying changes in working capital accounts, see “— Discussion of Certain Key Balance Sheet Items.”

Net cash flows used in operating activities in 2019 was RMB251.5 million. The difference between the loss before tax of RMB3.4 billion and negative operating cash flow of RMB251.5 million was the result of adjustments for non-cash expenses items of RMB2.6 billion, as well as changes in working capital accounts of RMB555.5 million. Adjustments for non-cash expense items mainly include fair value changes of convertible redeemable preferred shares of RMB1.9 billion, loss on repurchase of convertible redeemable preferred shares of RMB363.9 million, depreciation of right-of-use assets of RMB135.6 million and share-based payment expenses of RMB95.1 million. The changes in working capital accounts mainly include RMB1.1 billion increase in trade and bills payable, primarily due to RMB855.9 million increase in bills payable as we used notes for settlement more

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often in 2019 and notes generally had a longer payment term of six months, partially offset by (i) RMB504.8 million increase in inventories, and (ii) RMB426.1 million increase in restricted cash.

Certain unique factors also contributed to our net cash outflow from operating activities in 2021: (i) we paid a deposit of RMB50.0 million in connection with the setup of a financing guarantee company, (ii) as part of our NEV-related efforts, we made some investment in exploring business opportunities related to NEV, such as purchase of vehicles from certain NEV brands for sale, and (iii) we increased certain cash expenditures, such as research and development expenses, significantly in 2021 to support our business expansion. As such expenses are paid upfront, we expect them to be much more stable in the following years. Certain unique factors contributed to our net cash outflow from operating activities in 2022: (i) a large number of stores temporarily suspended operations in certain cities in 2022 due to the COVID-19 resurgence, which resulted in a decrease in revenue, while we continued to incur certain fixed costs and expenses; and (ii) although we paced our merchandise procurement in light of the COVID-19 resurgence, we were required to settle the bills we issued in relation to the procurement orders placed before the COVID-19 resurgence, and as a result, our trade and bills payables fell faster than the inventories, leading to a net outflow of funds. In view of our net cash outflows from operating activities in 2019, 2021 and 2022, we plan to improve our net operating cash outflows position by taking advantage of measures on revenue growth, cost efficiency and operating leverage improvement to narrow down our net loss and improve our profitability, which will in parallel translate into improved net operating cash flows. For instance, we plan to achieve revenue growth by growing customer base and enhancing customer engagement, and expanding store network as we penetrate in tier 2 and below cities and counties and optimise location and density of our stores in existing cities, which will boost sales and generate more cash inflow. We also plan to optimise our cost structure and operating efficiency, such as effectiveness and efficiency of our selling and marketing spending, which will save more cash outflow. Specifically, we will continue to strategically focus on marketing efforts customised for different target customer groups and invest in our research and development capabilities efficiently to improve our technological capabilities to enhance our store management system, fulfilment efficiency and user experience. We also plan to partner with many major suppliers and manufacturing brands to roll out more exclusive products and private label products with higher gross margin. Moreover, we will continue to improve efficiency of working capital management to accelerate the inventory turnover and better utilize the payment terms offered by our suppliers. For detailed strategies and measures we plan to take to achieve profitability, see “Business — Business Sustainability.”

Net Cash Flows (Used in)/ from Investing Activities

Net cash flows used in investing activities in the three months ended 31 March 2023 was RMB79.1 million, consisting primarily of (i) cash paid for purchase of property and equipment, and (ii) net cash used in purchase of financial assets at fair value through profit or loss, partially offset by net cash from withdrawal of time deposits upon maturity.

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Net cash flows from investing activities in 2022 was RMB481.3 million, consisting primarily of (i) net cash from withdrawal of time deposits upon maturity, and (ii) net cash generated from disposal of financial assets at fair value through profit or loss, partially offset by (i) cash paid for purchase of equity investments designated at fair value through other comprehensive income, and (ii) cash paid for purchase of property and equipment.

Net cash flows used in investing activities in 2021 was RMB918.0 million, consisting primarily of net cash used in investments in time deposits and cash paid for purchase of property and equipment, partially offset by the net cash generated from disposal of financial assets at fair value through profit or loss.

Net cash flows from investing activities in 2020 was RMB570.8 million, consisting primarily of net cash generated from disposal of financial assets at fair value through profit or loss, partially offset by (i) cash paid for purchase of property and equipment, (ii) cash paid for purchase of financial investments at fair value through profit or loss, and (iii) cash paid for purchase of shareholding in associates.

Net cash flows used in investing activities in 2019 was RMB1.1 billion, consisting primarily of net cash used in purchase of financial assets at fair value through profit or loss, cash paid for time deposits and cash paid for purchase of property and equipment.

Net Cash Flows from/(Used in) Financing Activities

Net cash flows from financing activities in the three months ended 31 March 2023 was RMB47.6 million, consisting primarily of net cash from release of certain security deposits, partially offset by lease payment.

Net cash flows from financing activities in 2022 was RMB936.0 million, consisting primarily of net cash from release of certain security deposits, partially offset by repayment of interest-bearing short-term bank borrowings.

Net cash flows from financing activities in 2021 was RMB1.4 billion, consisting primarily of proceeds from issuance of convertible redeemable preferred shares, partially offset by repayment of interest-bearing short-term bank borrowings.

Net cash flows used in financing activities in 2020 was RMB1.0 billion, consisting primarily of increase in restricted cash and lease payment, partially offset by proceeds from incurrence of interest-bearing short-term bank borrowings and issuance of convertible redeemable preferred shares.

Net cash flows from financing activities in 2019 was RMB1.9 billion, consisting primarily of proceeds from issuance of convertible redeemable preferred shares, partially offset by the repurchase of convertible redeemable preferred shares as a result of withdrawals by certain investors.

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Net Current Assets

The table below sets forth our current assets and liabilities as of the dates indicated.

	As of 31 December				As of 31 March	As of 31 July
	2019	2020	2021	2022	2023	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>					<i>(Unaudited)</i>
Current assets:						
Inventories	1,046,812	1,483,537	1,713,513	1,542,547	1,555,808	1,447,740
Trade receivables	155,614	280,510	202,990	173,731	195,827	213,457
Prepayments, other receivables and other assets	256,576	555,593	539,472	456,257	458,456	379,160
Financial assets at fair value through profit or loss	1,748,715	692,368	320,362	25,921	48,013	529,433
Restricted cash and time deposits	821,157	3,400,888	3,497,661	2,021,037	1,739,702	1,686,719
Cash and cash equivalents . . .	<u>1,474,876</u>	<u>1,164,958</u>	<u>1,472,293</u>	<u>2,686,353</u>	<u>2,815,580</u>	<u>3,009,386</u>
Total current assets	<u>5,503,750</u>	<u>7,577,854</u>	<u>7,746,291</u>	<u>6,905,846</u>	<u>6,813,386</u>	<u>7,265,895</u>
Current liabilities:						
Trade and bills payables	1,683,398	2,808,434	3,240,321	3,119,324	3,231,297	3,269,589
Other payables and accruals	698,032	962,270	1,463,777	1,566,010	1,524,310	1,643,475
Contract liabilities	215,353	382,463	558,999	653,045	634,632	713,015
Interest-bearing borrowings	—	2,016,915	264,000	—	—	1,036
Tax payable	10,301	34,884	67,517	97,225	97,816	113,225
Lease liabilities	<u>115,360</u>	<u>132,283</u>	<u>148,379</u>	<u>136,595</u>	<u>128,894</u>	<u>152,268</u>
Total current liabilities	<u>2,722,444</u>	<u>6,337,249</u>	<u>5,742,993</u>	<u>5,572,199</u>	<u>5,616,949</u>	<u>5,892,608</u>
Net current assets	<u><u>2,781,306</u></u>	<u><u>1,240,605</u></u>	<u><u>2,003,298</u></u>	<u><u>1,333,647</u></u>	<u><u>1,196,437</u></u>	<u><u>1,373,287</u></u>

We had net current assets of RMB1.4 billion as of 31 July 2023, as compared to net current assets of RMB1.2 billion as of 31 March 2023. The change was primarily due to (i) an increase of RMB481.4 million in the financial assets at fair value through profit or loss as we allocated more funds in short-term wealth management products, and (ii) an increase of RMB193.8 million in the cash and cash equivalents, partially offset by (i) an increase of RMB119.2 million in other payables and accruals, (ii) a decrease of RMB108.1 million in inventories as a result of faster turnover of inventories such as auto parts, in line with the post-COVID-19 business recovery, (iii) a decrease of

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RMB79.3 million in the prepayments, other receivables and other assets, and (iv) an increase of RMB78.4 million in contract liabilities. The increase in the cash and cash equivalents were primarily due to the increase in the cash inflow from our operating activities as a result of our continued efforts in gross margin improvement, cost control and cash management. The increase in other payables and accruals was primarily due to (i) the increase in refundable deposits from potential franchisees prior to entering into the franchise agreements in line with our store network expansion, and (ii) the increase in payable relating to the construction of new automated warehouses. The decrease in prepayments, other receivables and other assets was primarily due to (i) the decrease in loans receivable as we received repayments from certain entrusted loan borrowers; and (ii) drawdown of prepaid advertising fees in June 2023 during the 618 shopping festival. The increase in contract liabilities was primarily due to the increase in advance from customers as we launched more customer engagement and retention programs, such as the discount voucher promotional activities.

We had net current assets of RMB1.2 billion as of 31 March 2023, as compared to net current assets of RMB1.3 billion as of 31 December 2022. The change was primarily due to (i) a decrease of RMB281.3 million in the restricted cash and time deposits, and (ii) an increase of RMB112.0 million in trade and bills payables, partially offset by an increase of RMB129.2 million in the cash and cash equivalents. The decrease in the restricted cash and time deposits and the increase in the cash and cash equivalents were primarily due to the release of certain security deposits and withdrawal of certain time deposits upon maturity. The increase in trade and bills payables was primarily due to the increased procurement of merchandise in line with the post-COVID-19 business recovery.

We had net current assets of RMB1.3 billion as of 31 December 2022, as compared to net current assets of RMB2.0 billion as of 31 December 2021. The change was primarily due to (i) a decrease of RMB1.5 billion in the restricted cash and time deposits, (ii) a decrease of RMB294.4 million in financial assets at fair value through profit or loss as a result of the redemption of certain wealth management products, and (iii) a decrease of RMB171.0 million in inventories, partially offset by (i) an increase of RMB1.2 billion in the cash and cash equivalents, (ii) a decrease of RMB264.0 million in interest-bearing borrowings as we repaid certain short-term bank borrowings in 2022, and (iii) a decrease of RMB121.0 million in trade and bills payables. The decrease in the restricted cash and time deposits and the increase in the cash and cash equivalents were primarily due to the release of certain security deposits and maturity of certain time deposits, most of which were converted into cash and cash equivalents. The decrease in inventories and trade and bills payables were both because we paced the procurement of merchandise in 2022 in light of the COVID-19 resurgence in China.

We had net current assets of RMB2.0 billion as of 31 December 2021, as compared to net current assets of RMB1.2 billion as of 31 December 2020. The change was primarily due to (i) a decrease of RMB1.8 billion in interest-bearing borrowings as we repaid certain short-term bank borrowings in 2021, (ii) an increase of RMB307.3 million in cash and cash equivalents, and (iii) an increase of RMB230.0 million in inventories, partially offset by (i) an increase of RMB501.5 million in other payables and accruals, (ii) an increase of RMB431.9 million in trade and bills payables, and (iii) a decrease of RMB372.0 million in financial assets at fair value through profit or loss. The

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increase in trade and bills payables and inventories were in line with our business growth. The increase of cash and cash equivalents and decrease in financial assets at fair value through profit or loss were primarily because we allocated more funds in short-term time deposits and less funds in short-term wealth management products as there was increase in the proportion of funds denominated in US dollars at our hand as compared to funds denominated in RMB and we generally allocate funds denominated in US dollars in short-term time deposits which bear lower risks as compared to wealth management products.

We had net current assets of RMB1.2 billion as of 31 December 2020, as compared to net current assets of RMB2.8 billion as of 31 December 2019. The change was primarily due to an increase of RMB2.0 billion in interest bearing bank borrowings, an increase of RMB1.1 billion in trade and bills payables in line with our business growth and a decrease of RMB1.1 billion in financial assets at fair value through profit or loss, partially offset by an increase of RMB2.6 billion in restricted cash and time deposits. The decrease in financial assets at fair value through profit or loss and increase of restricted cash and time deposits were primarily because (i) we allocated less funds in short-term wealth management products as there was increase in the proportion of funds denominated in US dollars at our hand as compared to funds denominated in RMB and we generally allocate funds denominated in US dollars in time deposits which bear lower risks as compared to wealth management products, and (ii) we used bills for settlement more often in 2020, which required more security deposits at designated banks for bill issuances.

INDEBTEDNESS

The following table sets forth the breakdown of our indebtedness as of the dates indicated:

	As of 31 December				As of 31 March	As of 31 July
	2019	2020	2021	2022	2023	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>					
	<i>(Unaudited)</i>					
Current portion:						
Interest-bearing bank						
borrowings	—	2,016,915	264,000	—	—	1,036
Lease liabilities	115,360	132,283	148,379	136,595	128,894	152,268
Subtotal	115,360	2,149,198	412,379	136,595	128,894	153,304
Non-current portion:						
Interest-bearing bank						
borrowings	—	—	—	—	—	8,000
Lease liabilities	181,881	252,468	282,873	203,735	190,456	220,752
Convertible redeemable						
preferred shares	9,499,531	11,900,562	18,609,227	21,726,488	21,732,634	22,589,815
Subtotal	9,681,412	12,153,030	18,892,100	21,930,223	21,923,090	22,818,567

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Interest-Bearing Bank Borrowings

We obtained financing from banks which carry interests at the fixed rate ranging from 2.63% to 3.60% per annum. The following table sets forth the maturity profile of our secured and unsecured interest-bearing bank borrowings, as of the dates indicated:

	As of 31 December 2020		
	Effective interest rate (%)	Maturity	RMB (in thousands)
Current			
Bank loans — unsecured	3.46-3.60	2021	278,560
Bank loans — secured	2.63-3.50	2021	<u>1,738,355</u>
			<u>2,016,915</u>

	As at 31 December 2021		
	Effective interest rate (%)	Maturity	RMB (in thousands)
Current			
Bank loans — unsecured	2.95	2022	100,000
Bank loans — secured	2.65-3.15	2022	<u>164,000</u>
			<u>264,000</u>

	As of 31 July 2023		
	Effective interest rate (%)	Maturity	RMB (in thousands)
<i>(Unaudited)</i>			
Current			
Bank loans — secured	3.50	2025	1,036
Non-Current			
Bank loans — secured	<u>3.50</u>	<u>2025</u>	<u>8,000</u>
			<u>9,036</u>

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	As of 31 December				As of 31 March	As of 31 July
	2019	2020	2021	2022	2023	2023
	<i>(in thousands of RMB)</i>					<i>(Unaudited)</i>
Analysed into:						
Bank loans repayable:						
Within one year	—	2,016,915	264,000	—	—	1,036
More than one year	—	—	—	—	—	8,000

The substantial increase in bank borrowings in 2020 was primarily due to the favourable interest rates the commercial banks offered amid the COVID-19 pandemic period, which were encouraged by local governmental authorities as part of the COVID-19 relief measures. The decrease in bank borrowings in 2021 was primarily due to the repayment of certain loans we borrowed in 2020 as we obtained proceeds from equity financing activities in 2021.

As of 31 July 2023, we had unutilised banking facilities of RMB2.5 billion.

Lease Liabilities

Our lease liabilities primarily consist of the commitments under the lease agreements for our self-operated Tuhu workshops, warehouses, and office premises with terms ranging from two to fourteen years.

As of 31 December 2019, 2020, 2021 and 2022, 31 March 2023 and 31 July 2023, we have outstanding aggregate unpaid contractual lease payments (present value of lease payments for the remainder of relevant lease terms) of RMB297.2 million, RMB384.8 million, RMB431.3 million, RMB340.3 million, RMB319.4 million and RMB373.0 million in relation to the corresponding lease liabilities.

Convertible Redeemable Preferred Shares

Convertible redeemable preferred shares are designated as financial liabilities at fair value through profit or loss, details of which are included in note 34 to the Accountants' Report in Appendix I to this document.

Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of 31 July 2023.

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CONTINGENT LIABILITIES OR GUARANTEES

As of 31 December 2019, 2020, 2021 and 2022 and 31 July 2023, we did not have any material contingent liabilities or guarantees.

CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS

The following table sets forth our capital expenditures and long-term investments for the periods indicated:

	For the Year Ended 31 December				For the Three Months
	2019	2020	2021	2022	Ended 31 March
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
Capital expenditures					
Payments for property, plant and equipment	138,957	160,714	285,878	334,139	119,113
Payments for other intangible assets	815	4,486	19,363	11,284	1,258
Payments for land use rights	28,278	3,067	41,590	55,221	—
<i>Subtotal</i>	168,050	168,267	346,831	400,644	120,371
Long-term investments					
Acquisition of subsidiaries	—	66,196	24,501	17,962	—
Purchase of shareholding in associates	1,300	174,500	53,000	—	—
Purchase of shareholding in joint ventures	—	—	—	118,360	—
Purchase of financial investments at fair value	20,840	101,526	75,061	65,138	11,531
Acquisition of equity investments designated at fair value through other comprehensive income	—	—	—	412,290	—
<i>Subtotal</i>	22,140	342,222	152,562	613,750	11,531
Total	190,190	510,489	499,393	1,014,394	131,902

We expect that our capital expenditures in the foreseeable future will primarily consist of purchase of property and equipment and other intangible assets. We intend to fund our future capital expenditures and long-term investments with our existing cash balance, cash generated from operating activities, and proceeds from the Global Offering. See the section headed “Future Plans and Use of Proceeds” for more details. We may reallocate the fund to be utilised on capital expenditure and long-term investments based on our ongoing business needs.

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the dates indicated to a reasonably possible change in the RMB and US\$ exchange rate, with all other variables held constant, of our loss/profit before tax and our equity.

	Increase/(decrease) in rate of foreign currency	Increase/(decrease) in loss before tax	Increase/(decrease) in equity
	%	RMB in thousands	
Year ended 31 December 2019			
If RMB weakens against US\$	5	(14,043)	14,043
If RMB strengthens against US\$	(5)	14,043	(14,043)
Year ended 31 December 2020			
If RMB weakens against US\$	5	(13,352)	13,352
If RMB strengthens against US\$	(5)	13,352	(13,352)
Year ended 31 December 2021			
If RMB weakens against US\$	5	(21,027)	21,027
If RMB strengthens against US\$	(5)	21,027	(21,027)
Year ended 31 December 2022			
If RMB weakens against US\$	5	(7,692)	7,692
If RMB strengthens against US\$	(5)	7,692	(7,692)
Three months ended 31 March 2023			
If RMB weakens against US\$	5	(21,448)	21,448
If RMB strengthens against US\$	(5)	21,448	(21,448)

Credit Risk

We trade only with recognised and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

Liquidity Risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both our financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The table below analyses the maturity profile of our financial liabilities as of the end of each of the dates indicated, based on the contractual undiscounted payments.

	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	<i>(RMB in thousands)</i>				
As of 31 December 2019					
Trade and bills payables	1,670,181	13,217	—	—	1,683,398
Financial liabilities included in other payables and accruals	265,379	—	—	—	265,379

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	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	<i>(RMB in thousands)</i>				
Lease liabilities	127,729	95,690	89,644	9,474	322,537
Convertible redeemable preferred shares	—	—	12,318,066	827	12,318,893
Other non-current liabilities	—	31,400	122,200	30,616	184,216
Total	<u>2,063,289</u>	<u>140,307</u>	<u>12,529,910</u>	<u>40,917</u>	<u>14,774,423</u>
As of 31 December 2020					
Trade and bills payables	2,792,712	15,722	—	—	2,808,434
Financial liabilities included in other payables and accruals	368,430	—	—	—	368,430
Lease liabilities	152,465	131,828	124,279	20,844	429,416
Interest-bearing borrowings	2,016,915	—	—	—	2,016,915
Convertible redeemable preferred shares	—	—	11,985,116	827	11,985,943
Other non-current liabilities	—	109,041	165,797	54,942	329,780
Total	<u>5,330,522</u>	<u>256,591</u>	<u>12,275,192</u>	<u>76,613</u>	<u>17,938,918</u>
As of 31 December 2021					
Trade and bills payables	3,233,180	7,141	—	—	3,240,321
Financial liabilities included in other payables and accruals	626,460	—	—	—	626,460
Lease liabilities	170,779	128,194	150,100	35,894	484,967
Interest-bearing borrowings	264,000	—	—	—	264,000
Convertible redeemable preferred shares	—	—	17,672,632	827	17,673,459
Other non-current liabilities	—	103,240	332,806	—	436,046
Total	<u>4,294,419</u>	<u>238,575</u>	<u>18,155,538</u>	<u>36,721</u>	<u>22,725,253</u>
As of 31 December 2022					
Trade and bills payables	3,111,433	7,891	—	—	3,119,324
Financial liabilities included in other payables and accruals	719,330	—	—	—	719,330
Lease liabilities	146,024	93,373	110,852	18,503	368,752

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	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	<i>(RMB in thousands)</i>				
Convertible redeemable preferred shares	—	—	18,557,609	827	18,558,436
Other non-current liabilities	—	172,348	225,309	—	397,657
Total	<u>3,976,787</u>	<u>273,612</u>	<u>18,893,770</u>	<u>19,330</u>	<u>23,163,499</u>
As of 31 March 2023					
Trade and bills payables	3,223,392	7,905	—	—	3,231,297
Financial liabilities included in other payables and accruals	690,329	—	—	—	690,329
Lease liabilities	154,081	89,937	104,902	12,905	361,825
Convertible redeemable preferred shares	—	—	18,418,002	827	18,418,829
Other non-current liabilities	—	182,203	222,594	—	404,797
Total	<u>4,067,802</u>	<u>280,045</u>	<u>18,745,498</u>	<u>13,732</u>	<u>23,107,077</u>

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves until the aggregate amount of such fund reaches 50% of its registered capital, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognised as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

Any future determination to pay dividends will be made at the discretion of our Directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors may deem relevant. As advised by our Cayman Islands legal counsel, under Cayman Islands law, a Cayman Islands exempted company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be declared or paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. Investors should not purchase our shares with the expectation of receiving cash dividends. We did not declare or pay any dividends on our shares during the Track Record Period and we do not anticipate paying any cash dividends in the foreseeable future.

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DISTRIBUTABLE RESERVES

As of 31 March 2023, we did not have any distributable reserve.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present needs and for the next twelve months from the date of this document. We had negative cash flows from operations in 2019, 2021 and 2022, and positive cash flows in 2020 and the three months ended 31 March 2023. Our net cash flows used in operating activities was RMB251.5 million, RMB98.8 million and RMB312.7 million, respectively, in 2019, 2021 and 2022. Our net cash flows from operating activities was RMB331.3 million and RMB183.9 million in 2020 and the three months ended 31 March 2023. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

LISTING EXPENSES

Our listing expenses primarily include underwriting fees and commissions and professional fees paid to legal, accounting and other advisors for services rendered in relation to the Global Offering. Based on the mid-point Offer Price of HK\$29.50 per Offer Share and assuming the Offer Size Adjustment Option and the Over-allotment Option are not exercised the total estimated listing expenses in relation to the Global Offering were approximately RMB98.1 million, representing 9.0% of the total gross proceeds from the Global Offering of approximately HK\$1,198.2 million. Approximately RMB24.4 million is directly attributable to the offering and listing of our Offer Shares and will be deducted from equity upon the Listing. During the Track Record Period, we incurred listing expenses of RMB63.3 million, of which (i) RMB21.2 million, RMB27.8 million and RMB4.9 million were charged to the consolidated statements of profit or loss for the years ended 31 December 2021 and 2022 and the three months ended 31 March 2023, respectively and (ii) RMB9.4 million was directly attributable to the offering and listing of our Offer Shares and will be deducted from equity upon the Listing. We expect to incur additional listing expenses of RMB34.8 million, of which RMB19.8 million is expected to be expensed and RMB15.0 million is directly attributable to the offering and listing of our Offer Shares and expected to be recognised as a deduction in equity directly upon the Listing.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted consolidated net tangible assets prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to *Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants is to illustrate the effect of the Global Offering on our net tangible assets as of 31 March 2023 as if the Global Offering had taken place on that date.

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The unaudited pro forma statement of our adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our consolidated net tangible assets had the Global Offering been completed as of 31 March 2023 or at any future date. It is prepared based on our consolidated net assets as of 31 March 2023 as set forth in the Accountants' Report in Appendix I to this document, and adjusted as described below. Our unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report in Appendix I to this document.

	Consolidated net tangible liabilities attributable to our owners as at 31 March 2023	Estimated net proceeds from the Global Offering	Estimated impact to the consolidated net tangible liabilities upon conversion of convertible redeemable preferred shares	Unaudited pro forma adjusted consolidated net tangible assets as at 31 March 2023	Unaudited pro forma adjusted consolidated net tangible assets per Share as at 31 March 2023	
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i> <i>(Note 3)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 4)</i>	<i>HK\$</i> <i>(Note 5)</i>
Based on an Offer Price of HK\$28.00 per Offer Share	(18,957,156)	997,975	21,732,634	3,773,453	4.65	5.08
Based on an Offer Price of HK\$29.50 per Offer Share	(18,957,156)	1,052,041	21,732,634	3,827,519	4.71	5.15
Based on an Offer Price of HK\$31.00 per Offer Share	(18,957,156)	1,106,107	21,732,634	3,881,585	4.78	5.22

Notes:

- (1) The consolidated net tangible liabilities attributable to our owners as at 31 March 2023 was equal to the consolidated net liabilities attributable to our owners as at 31 March 2023 of RMB18,871,247,000 after deducting goodwill of RMB15,820,000 and other intangible assets of RMB70,089,000 as at 31 March 2023 set out in the Accountants' Report in Appendix I to this document.
- (2) The estimated net proceeds from the Global Offering are based on estimated offer prices of HK\$28.00, HK\$29.50, and HK\$31.00 per Share after deduction of the underwriting fees and other related listing expenses, which are not recorded in the consolidated statements of profit or loss for the Track Record Period, and do not take into account any share which may be sold and offered upon exercise of the Offer Size Adjustment Option and the Over-allotment Option.
- (3) Upon the Listing and the completion of the Global Offering, all the preferred shares will be automatically converted into Class A Shares. The convertible redeemable preferred shares will then be transferred from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted consolidated net tangible assets attributable to our owners will be increased by RMB21,732,634,000, being the carrying amounts of the preferred shares as of 31 March 2023.
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to our owners per Share is arrived at after adjustments referred to notes 2 and 3 above and on the basis that 812,340,662 shares are in issue, assuming that the conversion of preferred shares into Class A Shares and the Global Offering had been completed on 31 March 2023. However, this does

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not take into account of any Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the Over-allotment Option.

- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.91493.
- (6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any of our trading results or other transactions entered into subsequent to 31 March 2023.

NO MATERIAL ADVERSE CHANGE AND RECENT DEVELOPMENTS

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 31 March 2023, being the latest date of our consolidated financial statements as set out in Appendix I to this document, and there is no event since 31 March 2023 that would materially affect the information as set out in the Accountants' Report included in Appendix I to this document.

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

In accordance with Rule 13.48(1) of the Listing Rules, as our Listing will take place within three months after 30 June 2023, we have included our unaudited interim financial information as of and for the six months ended 30 June 2023 in this document. We have included our unaudited interim financial report prepared in accordance with IAS 34 as of and for the six months ended 30 June 2023 in Appendix IIA to this document. Our unaudited condensed consolidated financial statements have been reviewed by our reporting accountants in accordance with Hong Kong Standards on Review Engagements 2410. We have complied with the code provisions Part 2 of Appendix 14 to the Listing Rules. We are not in breach of our Articles of Association or applicable laws and regulations of the Cayman Islands or other regulatory requirements regarding our obligation to publish and distribute interim reports and interim results announcements in accordance with the requirements under Rule 13.48(1) of the Listing Rules. Pursuant to the Note to Rule 13.48(1) of the Listing Rules, we have fulfilled the three requirements to waive the publication of a separate interim report, and we do not intend to publish a separate interim report in respect of the six months ended 30 June 2023 under the aforementioned Rule. See "Appendix IIA — Unaudited Interim Financial Information" for details. The following is a discussion of fluctuations of selected line items.

Revenue

Our revenue increased by 19.3% from RMB5.5 billion in the six months ended 30 June 2022 to RMB6.5 billion in the same period of 2023, primarily due to an increase in revenue from automotive products and services.

Revenue from automotive products and services increased by 19.0% from RMB5.1 billion in the six months ended 30 June 2022 to RMB6.1 billion in the same period of 2023, primarily due to (i) a 22.7% increase in revenue from the sale of tires and chassis parts and related installation

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services from RMB2.2 billion in the six months ended 30 June 2022 to RMB2.7 billion in the same period of 2023, in particular, the sales volume of tires products increased by 18.1% from 5.5 million units to 6.5 million units, mainly resulting from (a) the post-COVID-19 business recovery. The released accumulative travel demand increased miles driven, and as a result needs for tire changes, and (b) the expansion of our Tuhu workshop network and growing customer base, and (ii) a 25.9% increase in revenue from auto maintenance products and services from RMB1.9 billion in the six months ended 30 June 2022 to RMB2.4 billion in the same period of 2023, in particular, the revenue from sale of motor oil and related services increased from RMB954.8 million to RMB1,254.1 million with the sales volume of motor oil products increased by 29.0% from 20.6 million liters to 26.6 million liters, mainly driven by the post-COVID-19 business recovery, and the expansion of our Tuhu workshop network and growing customer base. The number of Tuhu workshops increased from 4,293 as of 30 June 2022 to 5,129 as of 30 June 2023. The revenue increase was partially offset by a 12.1% decrease in revenue from our auto parts sold through Qipeilong from RMB741.9 million in the six months ended 30 June 2022 to RMB652.2 million in the same period of 2023, mainly as a result of the decrease in revenue from regional wholesale service as we strategically allocated more resources to develop the instant procurement service through Qipeilong.

Revenue from advertising, franchise and other services increased by 23.5% from RMB374.7 million in the six months ended 30 June 2022 to RMB462.8 million in the same period of 2023, primarily due to (i) an increase in revenue from franchise services, primarily due to (a) the expansion of franchised Tuhu workshops network from 4,114 franchised Tuhu workshops as of 30 June 2022 to 4,968 as of 30 June 2023, (b) the increase in the management fees as a result of the cessation of our COVID-19 relief measures, such as the reduction and exemption of management fees, and (c) the increase in the profit-based royalty fees in line with the business recovery of the franchised Tuhu workshops, and (ii) an increase in advertising services to brand owners, primarily driven by our brand owners' enhanced investment in marketing campaigns in line with the post-COVID-19 business recovery, partially offset by a decrease in revenue from our NEV initiatives as we adjusted our development strategies, and terminated the sales of new energy vehicles from certain NEV brands.

Cost of revenue

Our cost of revenue increased by 10.6% from RMB4.5 billion in the six months ended 30 June 2022 to RMB4.9 billion in the same period of 2023, at a pace slower than the growth of our revenue. The increase was primarily attributable to (i) an 18.9% increase in cost of sale of tires and chassis parts and related installation services from RMB1.9 billion in the six months ended 30 June 2022 to RMB2.2 billion in the same period of 2023, and (ii) a 17.3% increase in cost of auto maintenance products and services from RMB1.3 billion in the six months ended 30 June 2022 to RMB1.6 billion in the same period of 2023. The increases mentioned in (i) and (ii) were primarily due to an increase in products and service sales in line with the post-COVID-19 business recovery and expansion of our Tuhu workshop network, partially offset by (i) improved margin profile as a result of changes in products and services category mix, in particular, as revenue from auto maintenance products and services — which generally have higher margins — as a percentage of revenue from automotive

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products and services increased from 36.9% in the six months ended 30 June 2022 to 39.0% in the same period of 2023, (ii) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth, and (iii) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products. Revenue contribution from exclusive products increased from 35.1% in the six months ended 30 June 2022 to 37.4% in the same period of 2023, and revenue contribution from private label products increased from 22.5% in the six months ended 30 June 2022 to 28.9% in the same period of 2023. The decrease in the cost of revenue from our auto parts sold through Qipeilong also partially offset the increase in cost of revenue as we strategically contained the business scale of our regional wholesale service through Qipeilong and allocated more resources to develop the instant procurement service through Qipeilong.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 58.3% from RMB997.0 million in the six months ended 30 June 2022 to RMB1.6 billion in the same period of 2023. Our overall gross margin improved from 18.2% to 24.2% during the same period, primarily due to (i) improved margin profile as a result of changes in products and services category mix, (ii) lower procurement cost of certain product categories as we gained more favourable terms from suppliers in line with our business growth, and (iii) higher revenue contribution from our exclusive and private label products, which generally have higher gross margins than branded products.

Other income and gains, net

Our net other income and gains increased from RMB58.1 million in the six months ended 30 June 2022 to RMB83.2 million in the same period of 2023. The increase was primarily because the increase in government grants awarded by the local governments to support our operation.

Operations and support expenses

Our operations and support expenses decreased from RMB321.3 million in the six months ended 30 June 2022 to RMB272.0 million in the same period of 2023, which was mainly due to a RMB43.0 million decrease in operations and support personnel cost (excluding share-based payment expenses), primarily as a result of the decreased number of operations and support personnel from 2,635 (being the average of the number of our operations and support staff as of 1 January 2022 and as of 30 June 2022) to 2,120 (being the average of the number of our operations and support staff as of 1 January 2023 and as of 30 June 2023) as we adopted a series of measures to reduce costs and increase efficiency.

Research and development expenses

Our research and development expenses decreased from RMB318.2 million in the six months ended 30 June 2022 and RMB298.0 million in the same period of 2023, mainly attributable to (i) a

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RMB11.8 million decrease in cloud and service expenses as a result of the decrease in outsourced service fees, and (ii) a RMB6.7 million decrease in share-based payment expenses, mainly due to the decrease in the number of research and development personnel from 972 (being the average of the number of our research and development staff as of 1 January 2022 and as of 30 June 2022) to 906 (being the average of the number of our research and development staff as of 1 January 2023 and as of 30 June 2023). The decreases in the outsourced service fees and the number of our research and development staff were both due to the series of measures we adopted to reduce costs and increase efficiency.

Selling and marketing expenses

Our selling and marketing expenses increased by 13.4% from RMB741.8 million in the six months ended 30 June 2022 to RMB841.5 million in the same period of 2023, which was mainly due to (i) a RMB86.4 million increase in advertising and promotion-related expenses as part of our investments in marketing to further enhance our brand recognition, in line with the post-COVID-19 business recovery, and (ii) a RMB14.2 million increase in shipping expenses incurred in relation to the delivery of automotive products among warehouses and stores in line with the business recovery, partially offset by a RMB9.5 million decrease in short-term lease expenses, primarily due to the expiration of certain short-term warehouse leases in 2022 and the conversion from short-term leases to long-term leases for certain warehouses.

General and administrative expenses

Our general and administrative expenses decreased by 6.6% from RMB198.6 million in the six months ended 30 June 2022 to RMB185.5 million in the same period of 2023, which was mainly due to (i) a RMB15.3 million decrease in the share-based payment expenses, primarily due to the forfeiture of share awards previously granted to certain managerial personnel as a result of their resignation, (ii) a RMB7.3 million decrease in bank charges as a result of the decrease in the fee rates, and (iii) a RMB6.3 million decrease in general and administrative personnel cost (excluding share-based payment expenses), mainly due to the decrease in the number of general and administrative personnel from 428 (being the monthly average of the number of our general and administrative staff during the six months ended 30 June 2022) to 395 (being the monthly average of the number of our general and administrative staff during the six months ended 30 June 2023) as we adopted a series of measures to reduce costs and increase efficiency, partially offset by a RMB6.2 million increase in the professional and consulting expenses incurred in connection with the Listing.

Finance income

Our finance income increased by 251.0% from RMB17.6 million in the six months ended 30 June 2022 to RMB61.6 million in the same period of 2023, which was mainly due to (i) the interest rate hike for US\$-denominated time deposits and the appreciation of the exchange rate of U.S. dollar against Renminbi in the same period of 2023, and (ii) the increase in average balance of time deposits and demand deposits in the same period of 2023.

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Finance costs

Our finance costs decreased by 42.0% from RMB16.3 million in the six months ended 30 June 2022 to RMB9.5 million in the same period of 2023, which was mainly because (i) we incurred less interests on lease liabilities in the six months ended 30 June 2023, primarily due to the decrease in the number of self-operated Tuhu workshops, and (ii) we incurred less interest expenses in the six months ended 30 June 2023, as we had less outstanding balance of interest-bearing bank borrowings during the same period of 2023.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were a loss of RMB47.2 million in the six months ended 30 June 2023, as compared to a loss of RMB406.2 million in the same period of 2022. The changes in the fair value of our convertible redeemable preferred shares were primarily attributable to the increase in our Company's valuation and the change in the Company's valuation was relatively small in the six months ended 30 June 2023 as compared to the same period of 2022. See Note 14 to Appendix IIA to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Income tax expense

Our income tax expense decreased by RMB5.2 million from RMB15.8 million to RMB10.6 million, primarily due to decrease in taxable income of certain subsidiaries.

Profit/(loss) for the period

As a result of the foregoing, we had profit for the period of RMB59.5 million in the six months ended 30 June 2023 as compared with loss for the period of RMB951.9 million in the same period of 2022.

Adjusted net profit (non-IFRS measure)

For the six months ended 30 June 2023, we achieved adjusted net profit (non-IFRS measure) of RMB214.0 million. We adjust for share-based payment expenses of RMB95.4 million, fair value changes of convertible redeemable preferred shares of RMB47.2 million, loss on repurchase of convertible redeemable preferred shares of nil and listing expenses of RMB12.0 million to net profit to derive adjusted net profit. See “—Non-IFRS Measures.”

Inventories

Our inventories decreased by RMB92.4 million from RMB1,512.0 million as of 30 June 2022 to RMB1,419.6 million as of 30 June 2023, primarily due to faster turnover of inventories in line with the post-COVID-19 business recovery.

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Trade receivables

Our trade receivables increased by RMB11.3 million from RMB195.6 million as of 30 June 2022 to RMB206.9 million as of 30 June 2023, primarily due to the increase in the trade receivables in connection with our advertising services to brand owners, primarily driven by their increased investment in marketing campaigns in line with the post-COVID-19 business recovery.

Prepayments, other receivables and other assets

Our prepayments, other receivables and other assets decreased by RMB91.3 million from RMB509.3 million as of 30 June 2022 to RMB418.0 million as of 30 June 2023, primarily due to (i) the decrease in loans receivable as we received repayments from certain entrusted loan borrowers; and (ii) drawdown of prepaid advertising fees in June 2023 during the 618 shopping festival.

Cash and bank balance

Our cash and bank balance decreased by RMB76.2 million from RMB4.9 billion as of 30 June 2022 to RMB4.8 billion as of 30 June 2023, primarily because we allocated more funds in short-term wealth management products.

Trade and bills payables

Our trade and bills payables increased by RMB222.1 million from RMB2.9 billion as of 30 June 2022 to RMB3.2 billion as of 30 June 2023, primarily due to the increase in the procurement of merchandise in line with the post-COVID-19 business recovery.

Other payables and accruals

Our other payables and accruals increased by RMB254.4 million from RMB1.4 billion as of 30 June 2022 to RMB1.6 billion as of 30 June 2023, primarily due to (i) the increase in refundable deposits from potential franchisees prior to entering into the franchise agreements in line with our store network expansion, (ii) the increase in payable relating to the construction of new automated warehouses, and (iii) the increase in our investment in marketing campaigns in line with the post-COVID-19 business recovery.

Contract liabilities

Our contract liability increased by RMB101.5 million from RMB632.7 million as of 30 June 2022 to RMB734.2 million as of 30 June 2023, primarily due to the increase in advance from customers as we launched more customer engagement and retention programs, such as discount voucher promotional activities.

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Gearing ratio

Gearing ratio equals total debt (including interest bearing borrowings, lease liabilities and convertible redeemable preferred shares) divided by total equity and multiplied by 100%. Our gearing ratio slightly increased from 147.6% as of December 31, 2022 to 149.2% as of June 30, 2023 due to a comparatively greater increase in the total debt as compared with the increase in total equity. The increase in total debt was primarily due to (i) the increase in convertible redeemable preferred shares, primarily attributable to the increase in our Company's valuation, (ii) the increase in lease liabilities, primarily due to the succession of the lease liabilities as a result of the acquisition of Guangzhou Changtu Automobile Technology Co., Ltd. and the lease renewal of certain RDCs.

Business Outlook

For details of our future plans and business outlook, see “Business — Our Strategies” and “Future Plans and Use of Proceeds”.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.