

July 10, 2024

CHECHE GROUP INC.

(NasdaqCM: CCG)

Established in 2014 and headquartered in Beijing, China, Cheche Group is a leading auto insurance technology platform with a nationwide network more than 100 local branches licensed to distribute insurance policies across 25 provinces, autonomous regions, and municipalities in China. Capitalizing on its leading position in auto insurance transaction services, with a focus on the new electric vehicle (NEV) market, Cheche Group has evolved into a comprehensive, data-driven technology platform that offers a full suite of services and products for digital insurance transactions and insurance SaaS solutions in China.

INVESTMENT HIGHLIGHTS

- * In our view, Cheche Group is an emerging Insurtech company in China, connecting auto insurers and ecosystem stakeholders, including new electric vehicle (NEV) manufacturers, insurance intermediaries and affiliates, and their customers. The company is in the early stages of scaling its business to serve the world's second-largest auto market, which accounts for approximately 60% of the electric vehicles on the road globally.
- * We expect that the NEV sector will continue to benefit from favorable government policies that are driving the growth of China's automobile insurance industry.
- * In 2023, Cheche Group's activity within the NEV market in China saw a more than five-fold increase in the number of digital embedded policies to 416,000, and written premiums with a value of more than \$204 million. We view this market as being in the early stages of a long-term growth cycle.
- * For the full year of 2024, Cheche expects 6%-12% net revenue growth to RMB3.5 billion-RMB3.7 billion, and 8.4%-17.3% growth in total written premiums placed to RMB24.5 billion- RMB26.5 billion.
- * As of March 31, 2024, CCG had RMB234.0 million (US\$32.4 million) in total cash, cash equivalents, and short-term investments, and a positive working capital position

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KEY STATISTICS

Key Stock Statistics

Recent price (7/9/24)	\$0.80
52 week high/low	\$84.70/\$0.66
Shares outstanding (M)	75.7
Market Cap (\$M)	60.6
Dividend	NA
Yield	NA

Sector Overview

Sector	Information Technology
Sector % of S&P 500	32.5%

Financials (RMB (M), as of 3/31/24)

Cash & Mkt Securities	234.0
Debt	74.0
Working Capital (RMB)	264.9
Current Ratio	1.5
Total Debt/Equity (%)	20.2
Payout ratio	NA
Revenue (M, RMB) TTM	3308.9
Net Income (M) TTM	NA
Net Margin	NA

Risk

Beta	0.26
Inst. ownership	NA

Valuation

P/E forward EPS	NA
Price/Sales (TTM)	0.1
Price/Book (TTM)	1.4

Top Holders

Mr. Lei Zhang
Tencent Holdings Ltd.
Mr. Feng Zhang

Management

CEO/Chairman	Mr. Lei Zhang
CFO	Ms. Wenting Ji
CDO	Mr. Jiangxiang Zhou
Company Website	https://www.chechegroup.com

PRICE CHART



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of RMB 264.9 million (\$37 million, a current ratio of 1.5). We are encouraged by its 35.7% narrowed adjusted net loss in 2023, and think CCG could potentially reach profitability in 2025.

* Cheche Group shares and warrants trade on the Nasdaq market under ticker symbols CCG and CCGWW, respectively.

BUSINESS DESCRIPTION

Founded in 2014, Cheche Group is among China’s largest independent, technology-empowered platforms for auto insurance transaction services. In 2021, the company was the largest by digital auto insurance transaction premiums and fourth largest by gross premiums written, according to iResearch. The company has started to leverage its robust position for auto insurance transaction services to become an integrated network platform that offers a full suite of services and products for digital insurance transactions and insurance software-as-a-service (SaaS) solutions in China. Cheche Group has a nationwide network of over 400 service personnel locally placed across 25 provinces, autonomous regions, and municipalities in China.

China’s auto insurance market is the second largest in the world, behind only the United States. Between 2018 and 2021, the digital auto insurance transaction industry in China grew from RMB85.2 billion to RMB270.9 billion, representing a compounded annual growth rate (CAGR) of 47.1%, according to iResearch. Also according to iResearch, the penetration rate for digital auto insurance transactions in China was approximately 34.8% in 2021, and is expected to reach 72.9% by 2026. In 2021, intermediary channels, including digital platforms, accounted for approximately 67.6% of auto insurance premiums written by property & casualty (P&C) insurance carriers.

As the auto insurance market recovers from COVID-19 related disruptions, which limited driving activity and led to fewer new vehicle sales and related insurance transactions, we see the market transforming towards a more-digital and user-friendly environment, where customers can purchase insurance in a more-transparent and efficient manner.

Cheche Group operates a unified, cloud-based platform that serves as a “digital connector,” providing value to participants across the auto insurance landscape, including insurance carriers, intermediaries, third-party platforms, and referral partners and their customers. Thus, we see the company as well positioned to participate in this high-growth digital transformation, supported by its platform based on big data, cloud computing, AI, and other technologies.

The platform utilizes machine learning to analyze data related to the underwriting guidelines of insurance carriers and their affiliates, thus providing insights to ecosystem participants

that can enhance the user experience. As the embedded algorithms continue to advance, particularly for the SaaS products, we expect that automation and streamlining will enhance value propositions, allowing parties to sell more and more-diverse insurance products with less business-development cost burden.

The platform’s flagship products are the Easy-Insur and NEV Insurance Solution for the auto insurance industry, as well as the SaaS solution products Digital Surge and Sky Frontier. These products are designed and programmed in different forms, including mobile, web, WeChat, and third-party applications, with an open architecture that enables broad interoperability across numerous applications and systems.

Through Easy-Insur, Cheche Group offers an extensive range of auto and non-auto insurance products underwritten by insurance carriers. NEV Insurance Solution assists NEV manufacturers in building a full-stack digital insurance service system encompassing NEV insurance, one-click renewal, intelligent claims, business management, interface operation, and maintenance. Digital Surge is an intelligent, cloud-based one-stop SaaS solution that helps insurance intermediaries digitalize their operation processes. Sky Frontier is an AI-based, analytics-driven pricing-recommendation engine that helps insurance carriers optimize their underwriting and pricing strategies.

To date, the company has generated most of its revenues through transaction service fees for services and products provided to insurance carriers and insurance intermediaries. As insurance policies are sold through its platform, Cheche Group receives a percentage of the insurance premium. In 2023, auto insurance transactions with aggregate premiums of RMB17.7 billion (\$3 billion) represented 37.2% growth over 2022. We are encouraged by the growth in the number of policies written through the platform, which increased by 57.7% between 2021 and 2022, and an additional 28.5% in 2023, reaching 15.8 million. Similarly, gross premiums of transactions written through the platform increased by 49.5% between 2021 and 2022, and 36.1% in 2023, reaching 22.6 billion in 2023.

Notably, Cheche Group also has seen strong premium growth through referral partners network, for which it charges a higher percentage of premiums. Growth in this segment increased by 56.4% between 2021 and 2022, and an additional 32.9% in 2023, reaching RMB21 billion. The service-fee rate has remained relatively stable, between 14.5% and 16% over the past three years.

For its SaaS offerings, which were launched more recently in 2021, the company derives revenues from service fees for customers using Sky Frontier and Digital Surge, and also charging business partners for using insur-tech system building services.

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PEER COMPARISON											
Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
CHECHE GROUP INC	NASDAQ: CCG	0.80	84.70	0.66	61	NA	NM	NM	NM	0.26	NA
WATERDROP INC	NYSE: WDH	1.18	2.20	0.94	424	-42	-6	NM	NM	-0.27	NA
HUIZE HOLDING LTD	NASDAQ: HUIZ	1.00	1.39	0.43	50	-23	3	NM	5.3	0.57	NA
FANHUA INC	NASDAQ: FANH	1.48	7.99	1.51	86	-81	15	189	2.1	0.04	NA

COMPETITIVE ADVANTAGE

At the core of Cheche Group's value proposition is its ability to connect multiple stakeholders to potential customers. In turn, customers are provided an enhanced user experience, where they can more-conveniently, more-easily, and with greater transparency, obtain or renew auto insurance at better prices due to the direct connection with the transaction systems of insurance carriers. Through Cheche Group's platform, consumers can receive quotes for insurance policies from multiple insurers, usually within minutes, and experience more-favorable underwriting decisions resulting from adjusting application requests prior to submission.

In our view, Cheche Group is well positioned to benefit from a growing number of NEVs in China, and a significant increase in insurance-related demand. We also expect that recent developments in the new energy vehicle sector, with favorable government policies, will continue to drive growth of China's NEV industry. In recent years, NEV sales have more than offset declining sales of engine-based vehicles, supporting net vehicle sales growth.

We estimate that NEVs in China have a market share approaching half of the total market, and already account for more than half of new vehicle sales. According to EV Volumes (part of JD Power), more than 8 million new plug-in electric cars were registered in China in 2023, representing 46% growth, and about 37% of the total volume (up from 30% in 2022, 15% in 2021 and 6.3% in 2020). According to Soochow Securities, the number of NEVs in China is expected to reach 36.9 million by 2025, with insurance premiums reaching RMB186.5 billion.

We see the industry evolving rapidly, and working through changes in the economics of vehicle purchases in China. The year 2023 was the first in which China's NEV industry ran without support from national subsidies for EV purchases. However, tax exemptions for EV purchases and non-financial support and some province-led support and investments remain in place.

In addition, the NEV industry has been subject to price competition and manufacturer consolidation, which have contributed to pressure on profitability. According to data from the China Association of Auto Manufacturers (CAAM), the average profit margin for China's auto industry in 2023 slid to 5%, the lowest level in at least a decade.

According to statistics from the China Passenger Car Association, more than 10 passenger carmakers have exited the market since 2013, while several global players, including Honda, Hyundai, Mitsubishi, and Ford, have restructured in order to re-align their cost structures.

As part of these measures, NEV manufacturers, who typically sell directly to consumers, and offer services over the lifespan of a NEV, have remained increasingly engaged in the sales process and have started to seek new options to drive revenue growth. These include in some cases establishing their own insurance brokerage businesses, among efforts to efficiently acquire new customers and better serve existing customers. Thus, we see this as a significant opportunity for Cheche Group to expand its ecosystem and provide services that enhance the sales and efficiency of its participants. In 2023, the Cheche Group's activity within the NEV market in China saw a more than five-fold increase in the number of digital embedded policies, to 416,000, and written premiums with a value

of more than \$204 million. We view this market as being in the early stages of a long-term growth cycle.

To that end, since 2022, Cheche Group has formed partnerships with 11 NEV manufacturers. In the first quarter of 2024, such partnerships resulted in 119,000 policies (124.5% growth year over year), and corresponding written premium of RMB370.3 million (\$51.3 million, 78.5% growth).

In our view, Cheche Group has made significant progress toward establishing relationships with a broad and diversified network of 100 insurance carriers, including connecting with the technology systems of approximately 60 carriers. Those carriers include all of China's top 20 providers. As of the end of 2023, the company's local branches had entered into over 1,900 contracts with insurance carrier customers, with the local presence helping consumers navigate region-specific processes, which can cause wide variability among carriers for similar vehicles.

Entering 2024, Cheche Group had entered into collaborations with more than 4,500 insurance intermediaries for its SaaS product suite, and approximately 420 third-party platforms and 1.1 million referral partners to attract and acquire insurance consumers. The company pays service fees to these third-party platforms and referral partners for insurance transactions completed through Cheche Group's platform. This includes NEV manufacturers, ride-hailing firms, and consumer internet companies, and provides these sources with access to the product ecosystem, which can help these entities enhance their own customer-conversion efforts.

As of December 31, 2023, Cheche Group had registered 69 trademarks, 150 software copyrights, and 10 domain names.

ANALYST COMMENTARY: EARNINGS AND FINANCIALS

Cheche Group Class A shares trade on the Nasdaq Capital Market under the symbol CCG and warrants to purchase Class A shares are listed under symbol CCGWW. In September 2023, Cheche completed a business combination transaction with Prime Impact, which provided a vehicle to a public listing.

CCG shares recently closed at \$0.80, near the low end of the 52-week range. The market capitalization is approximately \$60 million, representing a price/sales ratio slightly above 0.1-times 2023 revenues of RMB 3.3 billion (\$465 million), which we think does not reflect the company's robust revenue growth and prospects for continued growth.

As of March 31, 2024, Cheche Group had RMB234.0 million (US\$32.4 million) in total cash, cash equivalents, and short-term investments, and approximately RMB83 million in total debt. The debt consists of RMB74 million in borrowings under credit facilities (though much of these funds have not yet drawn down) and RMB9 million in lease obligations. Although we view Cheche Group as well capitalized over the near-term, we see the potential for it to raise additional capital to invest in new products and make acquisitions to expand the platform's capabilities.

In 2023, the company reported 23% revenue growth to RMB3.3 billion (\$465 million). In the first quarter of 2024, net revenues increased 1% to RMB787.1 million (US\$109.0 million). Total written premiums placed increased 9.2%, while the total number of policies issued increased 21.2% from the prior-year

quarter. For all of 2024, Cheche Group expects net revenue growth of between 6.1% and 12.1% when compared to 2023, and growth in written premiums placed between 8.4%-17.3% over 2023.

We note that the first quarter is typically the weakest seasonal quarter, as higher levels of vehicle sales in China tend to occur in September and October, supporting higher transaction volumes and revenues in the second half of each year.

As mentioned earlier, Cheche Group has generated much of its revenues from a fee as a percentage of auto insurance premiums sold through its platform. Thus, gross margin historically has been between 4%-5% of revenues. Over time, we expect the advancement of digital services and revenue diversification across the company's expanding platform ecosystem, particularly from providing SaaS and technology services, as well as non-auto insurance market activity, improving the gross-margin profile.

In addition, we expect Cheche Group to leverage its expanding ecosystem, resulting in lower operating expenses as a percentage of revenues. Referral fees paid to partners is a large component of its operating costs, and we view positively 2023 revenue growth that outpaced adjusted total operating expenses, excluding variable share-based compensation expenses and non-recurring listing-related professional service fees. As a result of this operating leverage, we see Cheche Group as well positioned to continue to narrow its adjusted net-loss position -- which improved by 35.7% in 2023 to RMB33.2 million (\$4.7 million), compared with RMB51.6 million in 2022 -- and potentially reach profitability in 2025.

In 2023, net cash used in operating activities was RMB27.0 million, more than 80% narrower than RMB158.9 million used in 2022. Net cash generated from investing activities in 2023 was RMB12.8 million, compared with RMB27.7 million generated in 2022. Net cash generated from financing activities in 2023 was RMB140.3 million, compared with net cash used of RMB159.0 million in 2022. The former period benefited from share-issuance proceeds and cash received from short-term borrowings, whereas the latter period saw cash payment outflows due to the redemption of Series C convertible redeemable preferred shares.

We view positively that Cheche Group has no customer or supplier that accounted for more than 10% of its revenues or expenses in any of the past three years.

We also are encouraged that its auditing firm is PricewaterhouseCoopers Zhong Tian, which we think should enhance investor perception of the company's financials and transparency.

As of December 31, 2023, there were 75.4 million ordinary shares outstanding (56.8 million Class A/18.6 million Class B), and 13.7 million issued and outstanding warrants to purchase that number in Class A shares (10.8 million public/2.9 million sponsor/63,500 Innoven).

Cheche Group does not pay a dividend and we do not expect it to initiate such a dividend program before reaching profitability.

MANAGEMENT

Mr. Lei Zhang is Cheche Group's founder, and has served as chief executive officer and chairman of the board since September 2023. He previously served as chief executive officer of CloudPower Technology Co., Ltd., and held executive roles with firms includ-

ing Datang Capital Co., Ltd. and Huawei Technologies Co. As of May 2024, Mr. Zhang owned all of the Class B ordinary Shares, representing approximately 24.6% of the issued and outstanding share capital, and approximately 49.4% of voting power. (3:1 voting rights).

Ms. Wenting Ji has served as Cheche Group's chief financial officer since February 2024. Previously, Ms. Ji served as chief financial officer of firms including Xiaoyezi Music Technology Group, Quhuo Limited (Nasdaq: QH), and Delsk Group. She also held senior finance roles with firms including Yoyi Digital and Fang Holdings Limited (NYSE: SFUN).

As a group, Cheche Group's directors and executive officers owned 27.2% of the shares outstanding and controlled approximately 52% of the voting power.

Cheche Group's board of directors consists of five directors, including three independent directors. We view this positively for corporate governance purposes, and also like the appointment of independent directors to chair the audit and nominating and corporate governance committees.

RISKS

Risks for an investment in Cheche Group including that the company is operating in a highly competitive market, and has legal and operational risks related to being based in and having significant operations in China. These include Chinese government influence, as well as PRC economic, political, and social conditions. As a technology-focused company, Cheche Group faces risks associated with maintaining the availability of its platform, and has sensitivity to outages or cyberattacks.

In addition, Cheche Group derives most of its revenues from providing auto insurance transaction services, which depends on the health of China's automobile market. That market has experienced variability in customer demand in recent years. A downturn in general economic conditions in China could reduce consumer spending, negatively impacting the growth of China's automotive industry and the demand for auto insurance.

Lastly, warrants to purchase Class A shares are likely to increase the number of shares outstanding, resulting in dilution.

RECENT DEVELOPMENTS

As mentioned above, the rapid growth of the NEV market in China has fostered an evolution of new auto-insurance offerings, and Cheche Group has fostered expansion of a technology ecosystem that is connecting and providing value across various stakeholder groups. We view positively the company's recognition in iResearch's August 2023 "Top 30 Service Providers of Insurance Digitization" report, for its achievements in digital transformation.

Over the past 12 months, Cheche Group has entered into multiple new partnerships with industry leaders. We expect these to expand the company's ecosystem. In June 2024, Cheche Group entered into a partnership with NIO Insurance Broker Co. to help digitalize NIO's auto insurance processes, reducing front-end insurance delivery costs and enabling a customized and digital insurance-service system.

In May 2024, Cheche Group announced a partnership with Volkswagen (Anhui) Digital Sales and Services Co., which is

ramping activities in the NEV-branded insurance space. Cheche serves as the exclusive service provider and support of Volkswagen Anhui's-branded insurance needs.

In March 2024, Cheche Group entered into a partnership with Beijing Houji Insurance Brokerage Co., the insurance brokerage firm in Xiaomi Group, under which Cheche offers a digital auto-insurance transaction SaaS service platform with operational support for car owners in multiple cities across the country, including Beijing, Shenzhen, Hangzhou, and others.

In March 2024, Cheche Group expanded a partnership with Sinopec Easy Joy, which operates the non-oil businesses of state-owned China Petroleum & Chemical Corporation (Sinopec). Easy Joy's retail footprint includes over 30,000 gas stations, 28,000 convenience stores, and 10,000 auto care centers. Cheche Group

currently provides embedded, value-added services including auto insurance issuance, renewals, and promotional items such as car-wash coupons and convenience-store products in over 5,000 of Sinopec's gas stations nationwide, enhancing the customer experience at service stations.

In September and October 2023, Cheche Group announced partnerships with leading Chinese electric-vehicle companies Xpeng and Li Auto, which delivered a combined 500,000 vehicles in 2023. In 2023, Xpeng increased deliveries by more than 17%, while Li Auto increased total deliveries nearly three-fold. Cheche Group will provide its insurance service platform, including SaaS systems, digital operations, and API insurer management tools, enabling vehicle owners with digital insurance services that include new policies and one-click renewals.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis (MIL, RMB)	2021	2022	2023	Q1 2024
Revenue	1735.4	2679.3	3301.4	787.1
Gross Profit	80.8	142.3	140.2	33.8
SG&A	189.7	208.3	250.8	56.3
R&D	46.8	49.9	57.2	9.4
Operating Income	-155.7	-116.9	-167.8	32.0
Interest Expense	6.5	3.3	1.4	2.0
Pretax Income	-147.0	-91.5	-160.0	-31.3
Tax Rate (%)	NM	NM	NM	NM
Net income	-146.5	-91.0	-159.6	-31.3
Diluted Shares	33.8	31.8	45.4	75.5
EPS	-0.57	-8.79	-20.30	-0.41
Adjusted EPS	NA	-7.55	-17.51	-0.16
Dividend	NA	NA	NA	NA
Growth Rates (%)				
Revenue	NM	54%	23%	NM
Operating Income	NM	NM	NM	NM
Net Income	NM	NM	NM	NM
EPS	NM	NM	NM	NM
Valuation Analysis				
Price (\$):	NA	NA	84.70	NA
Price (\$):	NA	NA	4.88	NA
PE: High	NA	NA	NA	NA
PE: Low	NA	NA	NA	NA
PS: High	NA	NA	NA	NA
PS: Low	NA	NA	NA	NA
Yield: High	NA	NA	NA	NA
Yield: Low	NA	NA	NA	NA
Financial & Risk Analysis (M, RMB)				
Cash/ST Investments	426.1	149.8	264.9	234.0
Working Capital	405.0	256.8	278.8	264.9
Current Ratio	2.2	1.7	1.6	1.5
LTDebt/Equity (%)	12.7	20.0	14.6	15.6
Total Debt/Equity (%)	14.8	20.0	19.9	20.3
Ratio Analysis				
Gross Profit Margin	5%	5%	4%	NM
Operating Margin	NM	NM	NM	NM
Net Margin	NM	NM	NM	NM
Return on Assets (%)	NM	NM	NM	NM
Return on Equity (%)	NM	NM	NM	NM
Op Inc/Int Exp	NM	NM	NM	NM
Div Payout	NM	NM	NM	NM

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