
INDUSTRY OVERVIEW

Unless otherwise indicated, the information contained in this section is derived from various governmental and official publications, other publications and the market research report commissioned by us and prepared by Frost & Sullivan. We believe that the sources of information are appropriate, and we have taken reasonable and cautious care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. We, the Sole Sponsor, the [REDACTED] or any of our or their respective directors, senior management, representatives or any other person involved in the [REDACTED], except Frost and Sullivan, have not independently verified information and statistics from official government sources and have made no representation as to the accuracy and completeness thereof.

SOURCE OF INFORMATION

This section includes information from a report commissioned by us and prepared by Frost & Sullivan (the “F&S Report”), as we believe the F&S Report imparts a greater understanding of (1) China’s financial and tax-related transaction digitalization market, and (2) China’s market of transaction-based big data analytics for SMB financing (collectively, the “Relevant Industries”) for the period from 2018 to 2027. Frost & Sullivan, an independent third party, is a consulting firm founded in 1961 and provides professional industry consulting services across multiple industries. We have agreed to pay a commission fee of RMB650,000 for the F&S Report. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the F&S Report. Figures and statistics provided in this document and attributed to Frost & Sullivan or the F&S Report have been extracted from the F&S Report and published with the consent of Frost & Sullivan.

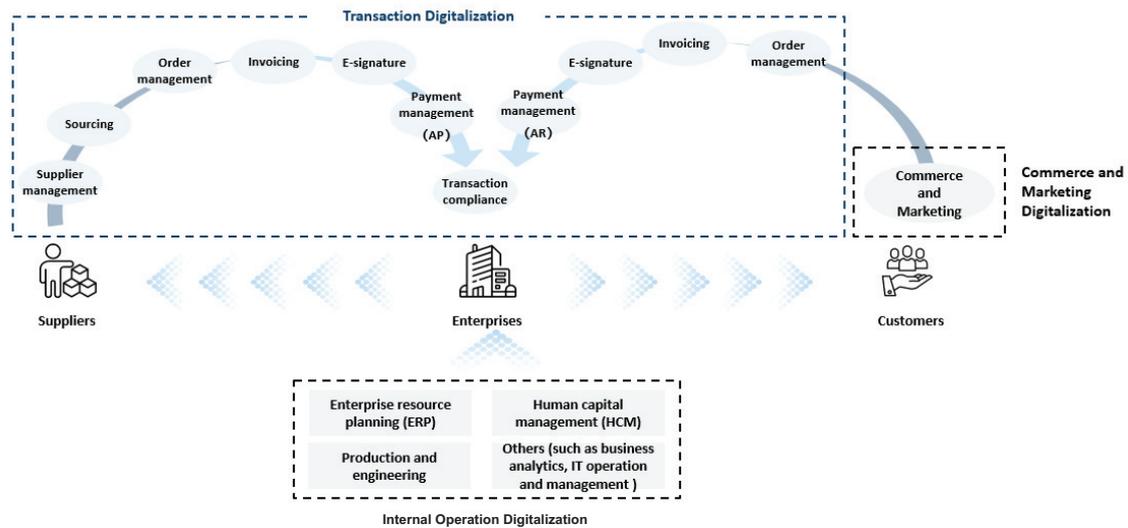
In preparing the F&S Report, Frost & Sullivan conducted both primary and secondary research through a variety of resources. Primary research involved discussions and interviews with leading industry participants regarding industry status. Secondary research involved analyzing information and statistics published by government authorities, industry associations, publications and studies by industry experts, public company’s corporate reports, online resources and data from Frost & Sullivan’s research database. The market projections in the F&S Report are based on the following key assumptions: (1) the social, economic and political environment in China will remain stable in the forecast period; (2) related key industry drivers are likely to continue driving the growth of the Relevant Industries during the forecast period; (3) the data quoted from authorities remains unchanged; and (4) there are no force majeure events or new industry-wide regulations which would drastically or fundamentally affect the Relevant Industries.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the F&S Report. Our Directors confirm that after taking reasonable care, there is no material adverse change in the overall market information since the date of the F&S Report that would materially qualify, contradict or have an impact on such information.

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CHINA’S ENTERPRISE DIGITALIZATION MARKET

Enterprise digitalization solutions are digitalization solutions that improve the level of business intelligence, and the digitalization and automation of business processes. Enterprise digitalization solutions can be classified, by business functions, into the digitalization of (1) transaction, (2) commerce and marketing, and (3) internal operation. Transaction digitalization solutions enable full-cycle management for transactions between enterprises and their customers and suppliers, from supplier management and product and service sourcing to order management, invoicing and transaction compliance management. Commerce and marketing digitalization solutions enable enterprises to manage marketing activities, discover sales leads and manage client relationships, thereby achieving customer and sales growth. Internal operation digitalization solutions enable enterprises to digitalize daily operational activities within the enterprises, such as resource planning and management, and human capital management. The following diagram illustrates business functions of each type of enterprise digitalization solutions.



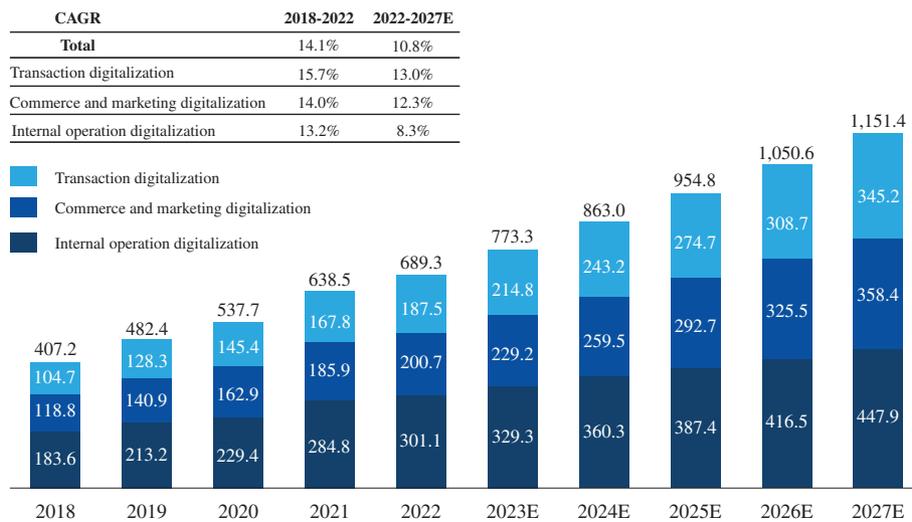
Source: Frost & Sullivan

Enterprises have increasingly recognized the benefits brought by enterprise digitalization solutions, including improvement in efficiency, cost-saving and compliance, which contribute to the continual growth of China’s enterprise digitalization market. China’s enterprise digitalization market, in terms of revenue, increased from RMB407.2 billion in 2018 to RMB689.3 billion in 2022, at a CAGR of 14.1%, and is expected to further reach RMB1,151.4 billion in 2027, at a CAGR of 10.8% from 2022 to 2027. The following chart illustrates the size of China’s enterprise digitalization market for the periods indicated.

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China’s Enterprise Digitalization Market, in Terms of Revenue

RMB Billion, 2018-2027E



Source: F&S Report

Drivers of China’s Enterprise Digitalization Market

According to the F&S Report, the following are key growth drivers of China’s enterprise digitalization market.

Prominent need for efficiency improvement. As enterprises expand in scale, the complexities with respect to enterprises’ overall business management increase accordingly, which gives rise to their demands for efficient, automated and reliable solutions. Moreover, the impact of COVID-19 pandemic on the offline activities has accentuated the importance of digitalized operations. The growing demand for digitalization, automation and operational efficiency is expected to propel the adoption of enterprise digitalization solutions among enterprises in China.

Adoption of cutting-edge technologies. Cutting-edge technologies, such as cloud computing, big data analytics, AI and blockchain technologies have sparked the innovation and digital transformation for enterprise operations. For instance, enterprises can utilize data insights for their real-time and fact-based decision-making. As more enterprises recognize benefits of cutting-edge technologies, the demand for digital transformation is expected to continue to increase.

Favorable government policies. Government authorities in China have promulgated favorable policies to propel the development of enterprise digitalization. For instance, the State Council of China, jointly with the Central Committee of Communist Party of China, issued Overall Layout Plan for the Construction of Digital China (數字中國建設整體佈局規劃) in 2023, which regards digitalization as an important engine for China’s modernization.

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CHINA’S FINANCIAL AND TAX-RELATED TRANSACTION DIGITALIZATION MARKET

The large number of enterprises in China, their massive volume of transactions and demands for digitalization contribute to the growth momentum of China’s transaction digitalization market in terms of revenue, which increased from RMB104.7 billion in 2018 to RMB187.5 billion in 2022, at a CAGR of 15.7%, and is expected to further increase to RMB345.2 billion in 2027, at a CAGR of 13.0% from 2022 to 2027. According to the F&S report, the growth rate of China’s transaction digitalization market is expected to outpace that of the overall enterprise digitalization market, because enterprises’ internal operation digitalization is a prerequisite for them to effectuate transaction digitalization, and China’s internal operation digitalization market has reached a more mature stage and demonstrated relatively slow growth rate. Transaction digitalization solutions comprise digital payment solutions, financial and tax-related transaction digitalization solutions, and various other solutions, such as contract management solutions.

Overview of China’s Financial and Tax-related Transaction Digitalization Market

Financial and tax-related transaction digitalization solutions enable enterprises to conduct financial and tax management based on transaction data, including invoices, bills, and other types of digital documents involved in business transactions. Financial and tax-related transaction digitalization solutions, by functions, mainly include e-invoice compliance management solutions, intelligent financial and tax management solutions, and intelligent supply chain collaboration solutions.

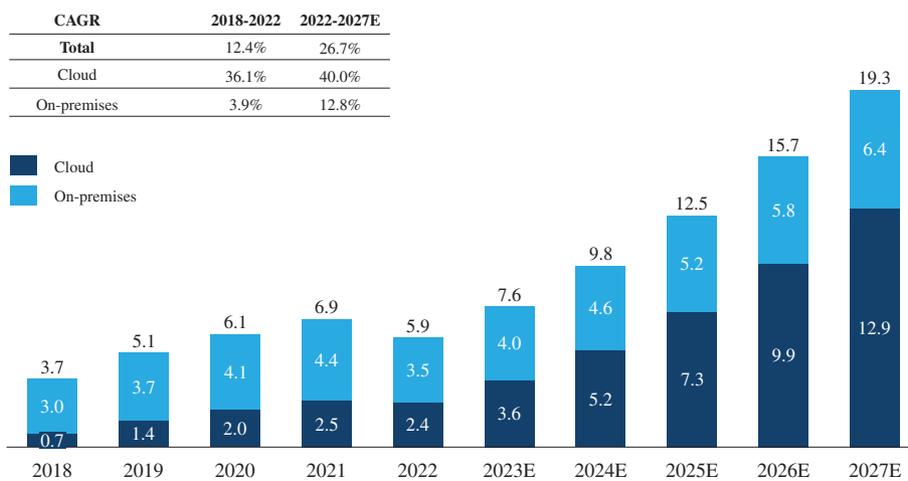
E-invoice compliance management solutions centralize invoice management activities of an enterprise on a unified platform and digitalize the entire management process, including among others, issuance, delivery, verification and storage, which reduces the need for manual processing and improves transaction and management efficiency. Moreover, e-invoice compliance management solutions enable enterprises to strengthen their compliance status and lower error rates through built-in codes and algorithms configured based on relevant tax and accounting rules. Intelligent financial and tax management solutions refer to a wide range of applications that digitalize management of enterprise spending, tax filing and accounting archive. By tracking and analyzing enterprises’ spending patterns and automating expenditure reimbursement processes, intelligent financial and tax management solutions help streamline enterprise budget control and the cumbersome manual reimbursement procedures. Intelligent supply chain collaboration solutions assist with enterprises’ procurement process, ranging from product and service requisitioning to transaction settlement. Driven by the need to increase operational efficiency while remaining compliant with relevant tax regulations, China’s financial and tax-related transaction digitalization market, in terms of revenue, increased from RMB3.7 billion in 2018 to RMB5.9 billion in 2022, at a CAGR of 12.4%, and is expected to reach RMB19.3 billion in 2027, at a CAGR of 26.7% from 2022 to 2027.

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China’s financial and tax-related transaction digitalization solutions consist of cloud and on-premises solutions. China’s cloud financial and tax-related transaction digitalization market, in terms of revenue, increased from RMB0.7 billion in 2018 to RMB2.4 billion in 2022, at a CAGR of 36.1%, and is expected to reach RMB12.9 billion in 2027, at a CAGR of 40.0% from 2022 to 2027. The proportion of China’s cloud financial and tax-related transaction digitalization market, in terms of revenue, in the overall financial and tax-related transaction digitalization market increased from 18.9% in 2018 to 40.7% in 2022 and is expected to reach 66.8% in 2027, driven by the increase in market demand for operational efficiency and market acceptance of cloud solutions. The following chart illustrates the market size of China’s financial and tax-related transaction digitalization for the periods indicated.

China’s Financial and Tax-related Transaction Digitalization Market, in Terms of Revenue

RMB Billion, 2018-2027E



Source: F&S Report

Drivers and Trends of China’s Financial and Tax-related Transaction Digitalization Market

According to the F&S Report, the following are key growth drivers and trends of China’s financial and tax-related transaction digitalization market.

Government-initiated tax and e-invoice reform. An increasing number of government initiatives have aimed to promote enterprises’ digital transformation in the areas of invoice, financial and tax management to drive economic growth and achieve more effective administration. Such government initiatives include Announcement of the State Administration of Taxation on Issues Relating to Promoting Issuance of Electronic Ordinary VAT Invoices through the Electronic VAT Invoice System (國家稅務總局關於推行通過增值稅電子發票系統開具的增值稅電子普通發票有關問題的公告) and Opinions on Further Deepening the Reform of Tax Collection and Administration (關於進一步深化稅收徵管改革的意見). Furthermore, since the implementation of B2V tax reform, SAT’s action plan to combine the internet and taxation management, and the recent development of Golden Tax Project (金稅工程), there has been substantial increase in the penetration rate and popularization of e-invoice solutions among enterprises in China.

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Rapid development of compliance and information security technologies. Financial and tax-related transaction digitalization solutions utilize advanced compliance and information security technologies to timely detect and rectify security loopholes, fraud and manual errors occurring in enterprises’ internal and external business activities. Furthermore, with the increasingly reliable IT infrastructure and the development of data security technologies, such as digital signatures, cryptographic algorithms and OFD template, financial and tax-related transaction digitalization solutions can enable secured end-to-end transaction process. These technologies are expected to further improve the reliability and effectiveness of financial and tax-related transaction digitalization solutions, which will drive enterprises’ adoption of such solutions.

Competitive Landscape of China’s Financial and Tax-related Transaction Digitalization Market

China’s financial and tax-related transaction digitalization market is relatively fragmented, with the top five market players accounting for 21.3% of total market share in terms of revenue in 2022. We ranked second in China’s financial and tax-related transaction digitalization market, in terms of revenue, accounting for 4.3% of market share in 2022, according to the F&S Report. The following table sets out our ranking in China’s financial and tax-related transaction digitalization market in terms of revenue in 2022.

<u>Company</u>	<u>Revenue</u>	<u>Market Share</u>
	<i>(RMB million)</i>	<i>(%)</i>
Company A ⁽¹⁾	410	6.9
Our Group	251	4.3
Company B ⁽²⁾	244	4.1
Company C ⁽³⁾	180	3.1
Company D ⁽⁴⁾	170	2.9

Source: F&S Report

- (1) Company A is a listed company on Shanghai Stock Exchange with a registered capital of RMB1,863 million, founded in 2000 and headquartered in Beijing. Company A is a traditional invoice-based solution provider, whose business covers invoice issuance and invoice and tax compliance. As of December 31, 2022, the number of employees of Company A was approximately 18,485.
- (2) Company B is a private company with a registered capital of RMB88 million, founded in 2017 and headquartered in Shanghai. Company B is an emerging cloud solution provider whose business focuses on the automated process of external procurement sourcing and reconciliation and settlement. As of December 31, 2022, the number of employees of Company B was approximately 135.
- (3) Company C is a private company with a registered capital of RMB10 million, founded in 2014 and headquartered in Beijing. Company C is a cloud solution provider that helps enterprises achieve cost reduction and efficiency improvement through a cloud reimbursement platform. As of December 31, 2022, the number of employees of Company C was approximately 90.

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- (4) Company D is a private company with a registered capital of RMB67 million, founded in 2016 and headquartered in Beijing. Company D is a cloud solution provider with software and value-added services offerings, including invoice issuance, enterprise reimbursement management, tax declaration, and tax compliance risk control. As of December 31, 2022, the number of employees of Company D was approximately 210.

Among the cloud financial and tax-related transaction digitalization solution providers in China, we ranked first in terms of revenue, accounting for a market share of 6.6%. In addition, with approximately 0.7 billion invoice processing requests fulfilled and approximately 1.7 billion VAT invoices issued through our cloud solutions in 2022, we ranked first and second among financial and tax-related transaction digitalization solution providers in China, respectively.

Ranking of China’s Cloud Financial and Tax-related Transaction Digitalization Solutions Providers in Terms of Revenue in 2022

Company	Revenue	Market Share
	<i>(RMB million)</i>	<i>(%)</i>
Our Group	158	6.6
Company E ⁽¹⁾	150	6.3
Company C ⁽²⁾	144	6.0
Company B ⁽²⁾	98	4.1
Company D ⁽²⁾	68	2.8

Source: F&S Report

- (1) Company E is a private company with a registered capital of RMB10 million, founded in 2015 and headquartered in Shanghai. Company E is an emerging cloud solution provider focusing on intelligent supply chain collaboration and VAT invoicing compliance via its cloud invoice management platform. As of December 31, 2022, the number of employees of Company E was approximately 110.

- (2) See footnotes (2) through (4) to the first table under this sub-section.

Ranking of China’s Financial and Tax-related Transaction Digitalization Solution Providers in 2022

Company	In terms of the number of invoice processing requests* fulfilled through cloud solutions in 2022
	<i>(in Billion)</i>
Our Group	0.7
Company A ⁽¹⁾	0.6
Company D ⁽²⁾	0.3

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Company	In terms of the number of VAT invoices issued through cloud solutions in 2022
	<i>(in Billion)</i>
Company A ⁽¹⁾	2.0
Our Group	1.7
Company D ⁽¹⁾	1.0

Source: F&S Report

* The number of invoice processing requests counts each request for invoice collection, verification, download, and certification for tax deduction.

⁽¹⁾ See footnote (1) to the first table under this sub-section.

⁽²⁾ See footnote (4) to the first table under this sub-section.

Entry Barriers of China’s Financial and Tax-related Transaction Digitalization Market

According to the F&S Report, the following are entry barriers of China’s financial and tax-related transaction digitalization market.

Technology capabilities. Leading market players typically possess more advanced technologies to assure functionality, reliability and security of solution offerings. Such technological capabilities would take significant amount of time for new market entrants to develop. Moreover, seasoned solution providers, having accumulated more industry-specific experience and know-how through serving customers of various industries, are more capable of providing industry-customized solutions that precisely target industry-specific pain points.

One-stop service capabilities. Enterprises have increasing demands for one-stop financial and tax-related transaction digitalization solutions for centralized and convenient management. Such one-stop service capabilities require expertise on a diverse range of service areas, including invoice, financial and tax management, as well as supply chain collaboration. New market entrants require a substantial amount of time and resources to develop such expertise.

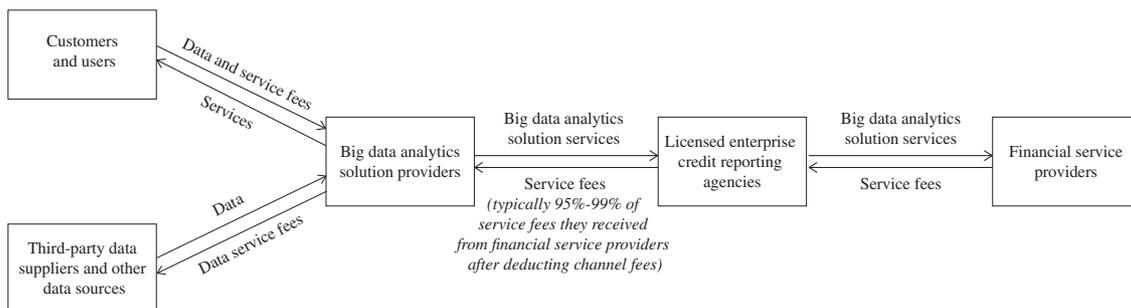
Experience in collaborating with regulatory authorities. As the financial and tax-related transaction digitalization solutions, especially the e-invoice compliance management solutions, are designed to strengthen enterprises’ compliance with applicable laws and regulations, leading market players that work closely with regulatory authorities and possess more accurate understanding of regulations and policies can develop more effective compliance solutions, as compared to new market entrants.

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CHINA’S BIG DATA ANALYTICS FOR SMB FINANCING MARKET

Big data analytics solutions offer data-generated insights to identify and correlate hidden patterns based on massive volume of data. Participants of China’s big data analytics market primarily include (1) data suppliers, which collect and transmit data related to consumer behavior, enterprises’ operations, among others; (2) data analytics technology suppliers; and (3) big data analytics solution providers, which integrate data and data analytics technology into their product and service offerings.

There are two types of credit reporting agencies in China, namely individual credit reporting agencies (個人徵信機構) and enterprise credit reporting agencies (企業徵信機構). As of August 2023, there were two licensed individual credit reporting agencies and 149 licensed enterprise credit reporting agencies. Licensed enterprise credit reporting agencies are important market players in the big data analytics for SMB financing market, as it is common practice for big data analytics solution providers to collaborate with licensed enterprise credit reporting agencies to provide big data analytics services to financial service providers while ensuring compliance with the Administrative Measures for Credit Reporting Business (the “2021 Administrative Measures”) after it took effect. Under the collaboration arrangement between licensed enterprise credit reporting agencies and big data analytics solutions providers, licensed enterprise credit reporting agencies typically procure data and data analytics services from big data analytics solution providers and deliver such services to financial service providers, while maintaining the requisite licenses and government approvals for carrying out such activities. Such licensed enterprise credit reporting agencies are required to complete record-filing procedures with the People’s Bank of China as prescribed under the 2021 Administrative Measures, in order for them to provide credit reporting services for financial service providers. The following diagram illustrates the typical transaction and information flow among data suppliers, licensed enterprise credit reporting agencies, financial service providers and big data analytics solution providers after the 2021 Administrative Measures took effect.



According to the F&S Report, licensed enterprise credit reporting agencies typically lack proprietary data assets and access thereto, and as a result, many licensed enterprise credit reporting agencies would collaborate with big data analytics solution providers. Due to market competition and lack of differentiated product and service offerings, licensed enterprise credit reporting agencies typically have relatively low profit profiles.

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Customers of big data analytics solutions primarily include financial service providers and other enterprise customers. Enterprise customers typically adopt big data analytics solutions in the areas of marketing, risk management, product design, client relationship management and supply chain insights.

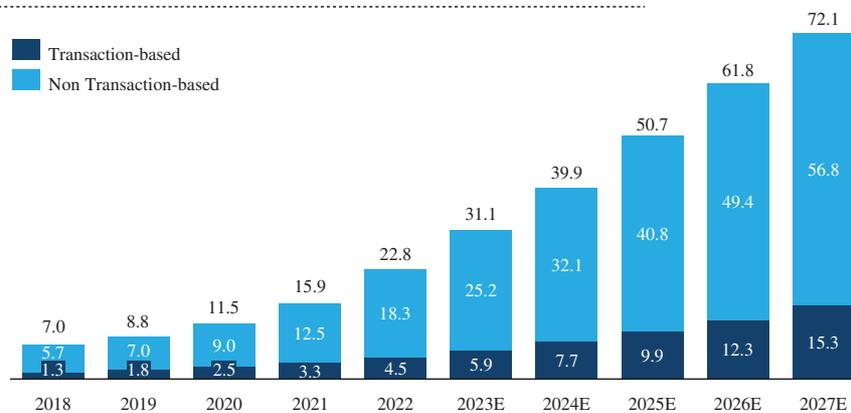
Big data analytics solutions are quickly adopted by China’s financial service industry, as big data analytics solutions can help financial service providers identify potential financial product users, customize financial product marketing strategies and detect and monitor credit risks.

SMB financing refers to the provision of financing to small and micro-sized businesses by licensed financial service providers in China, including commercial banks, factoring and leasing companies, and micro-lending companies, among others. Growth potential of China’s big data analytics for SMB financing market is evidenced by relevant loan balances with financial service providers in China, which increased from RMB33.5 trillion in 2018 to RMB59.7 trillion in 2022, at a CAGR of 15.5%, and is expected to reach RMB115.7 trillion in 2027, at a CAGR of 14.1% from 2022 to 2027. Financial service providers are willing to invest in big data analytics to leverage this market potential. China’s big data analytics for SMB financing market, in terms of revenue, increased from RMB7.0 billion in 2018 to RMB22.8 billion in 2022, at a CAGR of 34.3% and is expected to reach RMB72.1 billion in 2027, at a CAGR of 25.9% from 2022 to 2027, as illustrated in the following chart.

Market Size of Big Data Analytics Solution For SMB Financing

RMB Billion, 2018-2027E

	CAGR	2018-2022	2022-2027E
Total		34.3%	25.9%
Transaction-based Big Data Analytics Solution For SMB Financing		35.2%	28.0%
Non Transaction-based Big Data Analytics Solution For SMB Financing		34.1%	25.4%



Source: Frost & Sullivan

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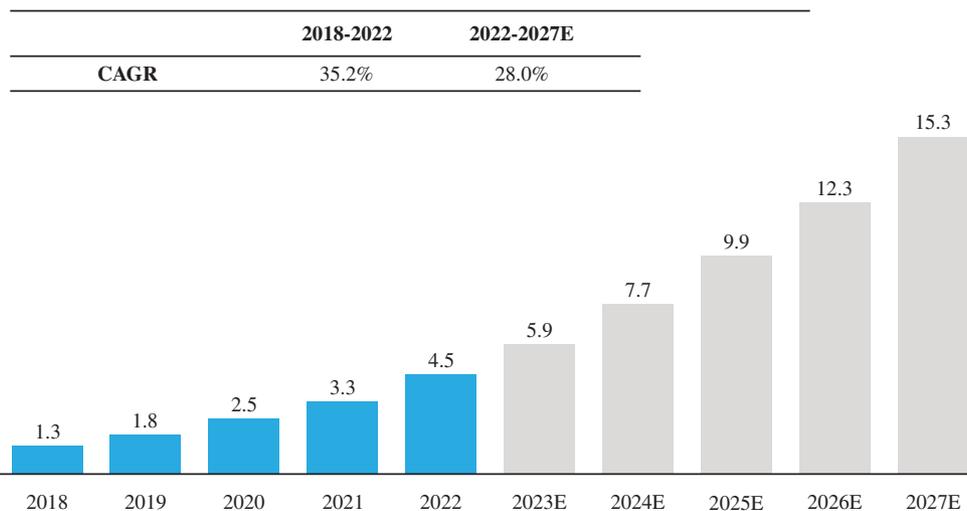
Transaction-based Big Data Analytics for SMB Financing Market

China’s transaction-based big data analytics for SMB financing market utilizes primarily financial and tax-related data generated from enterprises’ transaction information to optimize efficiency of the provision of SMB financing in China. As transactions directly reflect enterprises’ operational performance, analytical results based on transactions can accurately and timely reflect the operation conditions and shed light on the financial performance of enterprises.

Transaction-based big data analytics for SMB financing have two major functions: marketing and risk management. As demands for financial services continue to increase in China, financial service providers are facing mounting challenges in efficiently and effectively identifying and reaching qualified financial product users. Big data analytics solutions built upon transaction data are able to reveal potential customers’ financing, investment and insurance needs and enable financial service providers to precisely identify potential users for their financial products, and to subsequently launch tailored marketing campaigns. Transaction-based big data analytics have also become one of the advanced and innovative approaches for financial service providers to monitor and minimize risk exposure. To construct a reliable and comprehensive risk profile of users, financial service providers need a large amount of information to conduct relevant risk analysis. Big data analytics based on transactions, reflecting users’ financial condition and spending patterns and historical payment records, enable financial service providers to review and predict potential customers’ financing needs, and subsequently conduct risk evaluation and adopt risk mitigation measures.

China’s Transaction-based Big Data Analytics For SMB Financing Market, in Terms of Revenue

RMB Billion, 2018-2027E



Source: F&S Report

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Key Trends and Drivers

According to the F&S Report, the following are the key trends and drivers of China’s transaction-based big data analytics for SMB financing market.

Rising preference for independent data analytics solutions. As financial service providers have attached greater importance to data objectivity and neutrality, many of them have procured independent big data analytics solutions for risk monitoring and assessment.

Growing demand for multi-dimensional data resources. In order to understand and verify the financial and operation status of financial product users, financial service providers increasingly rely on multi-dimensional data resources, such as invoice and transaction data, based on which they can also customize marketing strategies and recommend products correspondingly.

Technology advancement. Technology advancement in AI, cloud computing and other technologies in recent years have improved the precision and effective risk control of big data analytics solutions, which is expected to promote the adoption of big data analytics solutions among financial service providers and drive overall market growth.

Entry Barriers

According to the F&S Report, the following are the key entry barriers of China’s transaction-based big data analytics for SMB financing market.

Technology barrier. Transaction-based big data analytics solution providers need to keep enhancing their technological capabilities and optimizing precision and accuracy of their solution offerings, in order to keep up with market trends and customer demands. A fundamental challenge for new market entrants is to properly utilize the vast volume and diversity of transaction-related data generated from various business activities. Deriving useful insights from such data requires sophisticated data processing infrastructure and robust analytical capabilities. Moreover, different transaction documents typically bear different formats or structures, presenting challenges for new market entrants to consolidate and analyze data consistently.

Data barrier. Effective solutions are based on authentic, voluminous, multi-dimensional and high-quality transaction data accumulated over time. New market entrants, with limited industry resources, may lack sufficient access to such data.

Brand barrier. Financial service providers value data security and solution reliability. Financial service providers are more willing to collaborate with reputable solution providers with secure and reliable solution offerings. New market entrants may not be able to establish brand influence and reputation at the outset of their business.

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Competitive Landscape of China’s Transaction-based Big Data Analytics for SMB Financing Market

We ranked second in China’s transaction-based big data analytics for SMB financing market in terms of revenue in 2022. The following table sets forth our position in China’s transaction-based big data analytics for SMB financing market as compared to other market participants in terms of revenue in 2022.

<u>Ranking</u>	<u>Company</u>	<u>Revenue</u>	<u>Market Share</u>
		<i>(RMB million)</i>	<i>(%)</i>
1	Company A ⁽¹⁾	677	15.2
2	Our Group	264	5.9
3	Company F ⁽²⁾	105	2.4
4	Company G ⁽³⁾	35	0.8
5	Company E ⁽⁴⁾	23	0.5

Source: F&S Report

⁽¹⁾ See footnote (1) to the first table under the sub-section headed “—China’s Financial and Tax-related Transaction Digitalization Market—Competitive Landscape of China’s Financial and Tax-related Transaction Digitalization Market.”

⁽²⁾ Company F is a listed company on the Hong Kong Stock Exchange with a registered capital of RMB530 million, founded in 1993 and headquartered in Shanghai. Company F is an enterprise digitalization solution provider. As of December 31, 2022, the number of employees of Company F was approximately 12,000.

⁽³⁾ Company G is a listed company on Shanghai Stock Exchange with a registered capital of RMB3,436 million, founded in 1988 and headquartered in Beijing. Company G is an enterprise digitalization solution provider. As of December 31, 2022, the number of employees of Company G was approximately 25,000.

⁽⁴⁾ See footnote (2) to the second table under the sub-section headed “—China’s Financial and Tax-related Transaction Digitalization Market—Competitive Landscape of China’s Financial and Tax-related Transaction Digitalization Market.”