
INDUSTRY OVERVIEW

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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 2019 to 2028. 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.

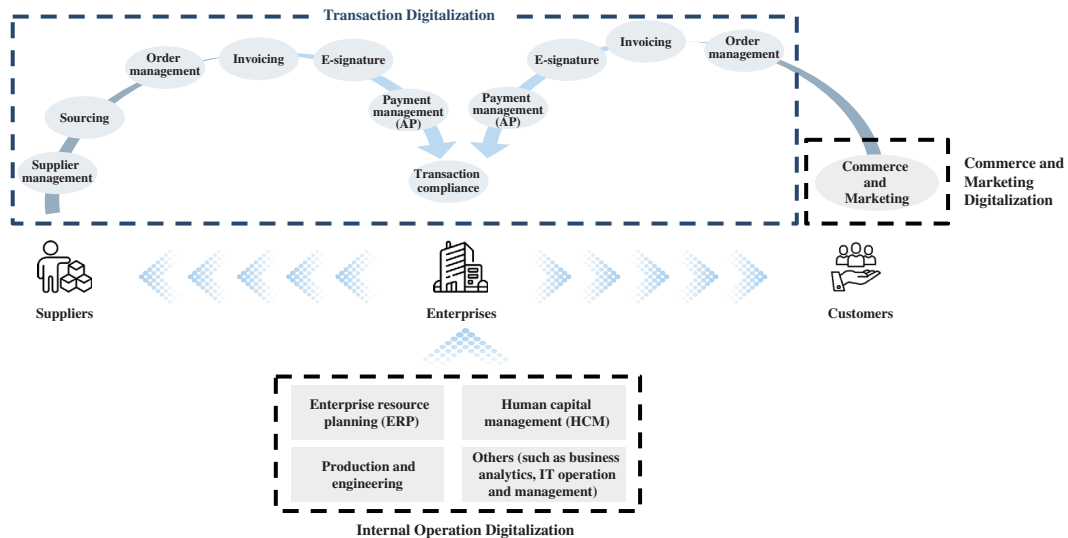
In preparing the F&S Report, Frost & Sullivan conducted both primary and secondary research through a variety of resources. Primary research involved discussions and interviews with leading industry participants regarding industry status. Secondary research involved analyzing information and statistics 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 decision-making, 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.



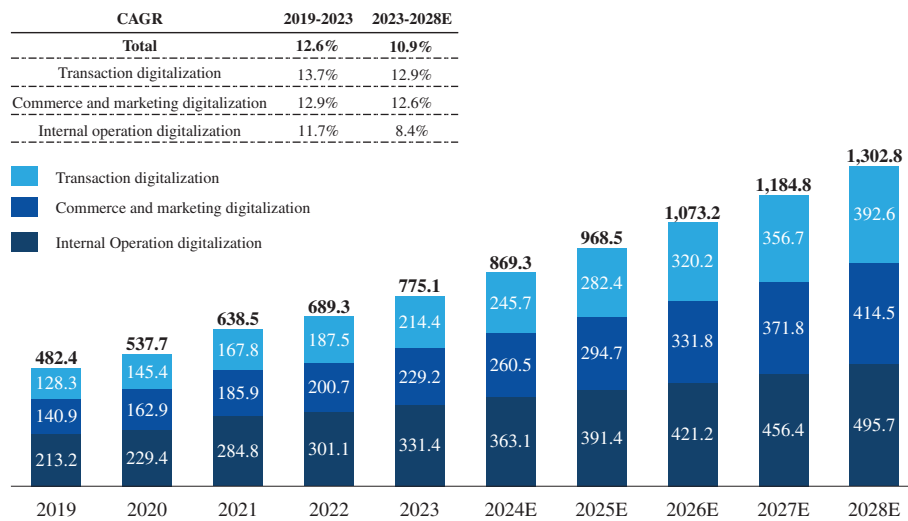
Source: F&S Report

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 RMB482.4 billion in 2019 to RMB775.1 billion in 2023, at a CAGR of 12.6%, and is expected to further reach RMB1,302.8 billion in 2028, at a CAGR of 10.9% from 2023 to 2028. The following chart illustrates the size of China’s enterprise digitalization market for the periods indicated.

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Market size of China’s enterprise digitalization, in terms of revenue

RMB Billion, 2019-2028E



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.

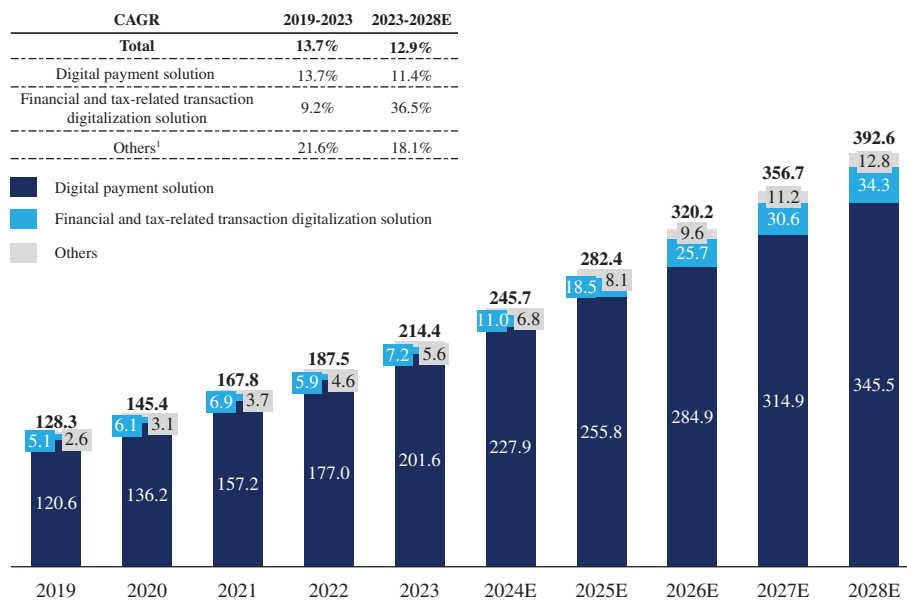
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CHINA’S FINANCIAL AND TAX-RELATED TRANSACTION DIGITALIZATION MARKET

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 RMB128.3 billion in 2019 to RMB214.4 billion in 2023, at a CAGR of 13.7%, and is expected to further increase to RMB392.6 billion in 2028, at a CAGR of 12.9% from 2023 to 2028. 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. The following chart illustrates the size of China’s transaction digitalization market for the periods indicated.

Market size of China’s transaction digitalization, in terms of revenue

RMB Billion, 2019-2028E



Source: F&S Report

Note:

- 1) Include other transaction digitalization solutions such as eSignature solutions

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Background of China’s Financial and Tax-related Transaction Digitalization

History of Golden Tax Project in China

In the early 1990s, as part of its comprehensive economic reform program, the PRC government implemented the VAT and the accompanying major fiscal reform project “Golden Tax Project,” which mandates the use of information technologies to improve compliance with China’s VAT laws. Since its initial launch in 1994, China’s Golden Tax Project has progressed through the following phases.

- *The First Phase* was introduced in 1994 through a nationwide computerized taxation network, including the implementation of VAT cross-auditing software system (增值稅交叉稽核系統) and VAT anti-counterfeit control software system (增值稅防偽稅控系統), that connected tax authorities at different administrative levels to prevent the fraudulent issuance and forgery of VAT invoices.
- *The Second Phase* was introduced in 1998 and built upon the work of First Phase to enhance the nationwide monitoring network and further prevent illegal activities related to VAT invoices, through the introduction of four software subsystems, including VAT anti-counterfeiting tax control invoicing subsystem (增值稅防偽稅控開票系統), anti-counterfeiting tax authentication subsystem (防偽稅控認證系統), VAT audit subsystem (增值稅稽核系統), and invoice investigation information management subsystem (發票協查信息管理系統). The Golden Tax Disk (金稅盤) and Tax Control Disk (稅控盤), each a specific type of information security hardware, were first introduced during the Second Phase to accommodate the invoice issuance requirement. See “—Invoice Issuance through VAT Invoicing Software” for details.
- *The Third Phase*, launched in 2013, focuses on unifying and integrating national and local taxation data to enable the swift exchange of tax information between national and local tax authorities. The Third Phase laid the groundwork for the Business Tax to Value-Added Tax reform launched by the PRC government in 2012 as a major overhaul of China’s tax system to unify the taxation of goods and services under a single VAT regime. Additionally, the Third Phase has facilitated the “Streamline the Government, Delegate Power, and Improve Government Services” reform initiated in 2015 to create a favorable operating environment for small and micro-sized businesses, stimulating the development of small and micro-sized businesses (“SMB”) financing. During the Third Phase, VAT e-invoice was also widely adopted in the PRC, as the government introduced Announcement of the State Administration of Taxation on Issues Relating to Promoting Issuance of Electronic Ordinary VAT Invoices (國家稅務總局關於進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) in 2015 to reduce costs for taxpayers and improve their overall experience. The Third Phase represents a significant step towards leveraging big data, interconnectivity, and advanced analytics to modernize China’s tax administration system and more effectively combat tax evasion. It also paves the way for the policy goal of “managing tax through big data.” Tax UKey (稅務UKey), a free information security hardware, was introduced by the State Administration of Taxation of the PRC (“SAT”) during the Third Phase.

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- *The Fourth Phase* (also known as the digital invoice reform), introduced in 2021, marks the SAT’s transition from “managing tax through invoices” to “managing tax through big data.” The Fourth Phase involves collecting, integrating, and analyzing tax-related data from more fields through the digital invoice reform. The SAT has launched the Digital Invoice Service Platform, with the Company and another software and technology company, which is a Chinese state-owned enterprise specializing in the provision of IT infrastructure services, such as those in relation to operating system and database (the “Co-developer”), as the joint bid-winner, joint developer and the exclusive service providers for the system application development of the Digital Invoice Service Platform. The Digital Invoice Service Platform currently consists of two systems: Direct Connection System, also known as the Natural System (樂企), and Web-based System. Direct Connection System allows large conglomerates and qualified large and mid-sized enterprises to directly connect their IT systems with the tax authority, while Web-based System allows enterprises to carry out digital invoice issuance and other invoice-related activities on the web. As of December 2023, the Digital Invoice Service Platform has passed the preliminary acceptance by the SAT.

Starting in 2024, it is expected that the development of the digital invoice reform will provide substantial market opportunities for financial and tax-related transaction digitalization solution providers. For enterprises connecting to the Direct Connection System, apart from a small number of companies opting for self-construction, the vast majority of enterprises will connect through digital invoicing solutions with the direct connection engine provided by financial and tax-related transaction digitalization solution providers, either through on-premises deployment or cloud deployment. For enterprises connecting to the Web-based System, besides manually logging into the system on the web, they will also choose digital invoicing solutions with the web connection engine developed by financial and tax-related transaction digitalization solution providers, primarily through cloud deployment, to utilize value-added services such as automatic invoicing and digital invoice management to issue and process invoices at large scale. For enterprises, in particular small and micro-sized enterprises, which do not need to issue digital invoices at large scale or to use other value-added services, financial and tax-related transaction digitalization solution providers can also offer free digital invoicing solutions to help these enterprises issue digital invoices with certain free value-added features such as automatic filling of invoice title information.

Enterprises in China are currently transitioning from the Third Phase into the Fourth Phase of the Golden Tax Project. Starting from the second half of 2024, it is estimated that approximately 100,000 large enterprises will gradually connect to the Direct Connection System and complete full transition to the Fourth Phase of the Golden Tax Project by 2028. Additionally, it is estimated that about 20% of the roughly one million medium and large enterprises will gradually connect to the Direct Connection System, while the remaining 80% will connect to the Web-based System. For those utilizing the Direct Connection System through digital invoicing solutions with the direct connection engine, if deployed on-premises,

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enterprises generally need to pay software license fees, one-time deployment implementation fees, and annual maintenance fees. If cloud-deployed, enterprises usually need to pay one-time deployment implementation fees and annual software subscription fees. For those utilizing the Web-based System through digital invoicing solutions with the web connection engine, enterprises generally need to pay one-time deployment implementation fees and annual software subscription fees. The transition from the Third Phase into the Fourth Phase of the Golden Tax Project will create significant market opportunities for financial and tax-related transaction digitalization solution providers, reaching approximately RMB7.0 billion in 2025, which are expected to increase gradually through the years from 2025 to 2028 and reach approximately RMB16.0 billion in 2028.

According to the F&S Report, the Co-developer is not a key market player in China’s financial & tax-related transaction digitalization market. According to the same source, as business growth for market players in the financial & tax-related transaction digitalization market under the Fourth Phase of the Golden Tax Project requires service expertise with respect to tax invoices, it is expected that the Fourth Phase of the Golden Tax Project will primarily benefit market players already with substantial service experiences on tax invoices, including us, Company A and Company C, as discussed below in “—Competitive Landscape of China’s Financial and Tax-related Transaction Digitalization Market.”

Invoice Issuance through VAT Invoicing Software

According to the F&S Report, there are currently three types of VAT Invoicing Software of the State Administration of Taxation of the PRC (國家稅務總局增值稅發票開票軟件) (“SAT’s VAT Invoicing Software”), each corresponding with a specific type of information security hardware, namely, Golden Tax Disk, Tax Control Disk and Tax UKey, the development of which was commissioned by the SAT. Accordingly, the three types of VAT Invoicing Software are typically referred to as VAT Invoicing Software (Golden Tax Disk version) (增值稅發票開票軟件(金稅盤版)), VAT Invoicing Software (Tax Control Disk version) (增值稅發票開票軟件(稅控盤版)), and VAT Invoicing Software (Tax UKey version) (增值稅發票開票軟件(稅務UKey版)), respectively. The history and development of the three types of information security hardware and their respective corresponding VAT Invoicing Software, including our cooperation with the SAT, was summarized as follows:

- Golden Tax Disk was the first generation of information security hardware commissioned by the SAT, and launched during the Second Phase of the Golden Tax Project and used for taxpayers’ invoice issuance. The SAT commissioned the development and manufacture of Golden Tax Disk, as well as the development of the VAT Invoicing Software (Golden Tax Disk version). Prior to the introduction of VAT Invoicing Software (Tax Control Disk version), VAT Invoicing Software (Golden Tax Disk version) was the only SAT’s VAT Invoicing Software available in the market.

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- The SAT further commissioned the development and manufacture of Tax Control Disk, as well as the development of VAT Invoicing Software (Tax Control Disk version). Prior to the introduction of VAT Invoicing Software (Tax UKey version), enterprises in China typically purchased Golden Tax Disk or Tax Control Disk and installed the corresponding SAT’s VAT Invoicing Software in order to complete VAT invoice issuance.
- Since early 2020, the SAT launched Tax UKey, which has been provided by the SAT to enterprises in China free of charge. Tax UKey is a type of information security hardware typically developed by manufacturers selected by local branches of the SAT through public tendering process. Since the launch of Tax UKey and VAT Invoicing Software (Tax UKey version), new taxpayers will only obtain Tax UKey from the SAT and install VAT Invoicing Software (Tax UKey version) for VAT invoice issuance.

Market participants in China’s financial and tax-related transaction digitalization market, including us, have developed a series of financial and tax-related transaction digitalization software and solutions to enable enterprises in China to effectively manage key aspects for enterprise transactions, such as procurement, billing, invoicing, management of account receivables and payables, and tax filings, through the VAT Invoicing Software. Such financial and tax-related transaction digitalization software and solutions provide value-added services on top of the basic VAT invoice issuance function offered by SAT’s VAT Invoicing Software, and must interact with one of the three SAT’s VAT Invoicing Software for VAT invoice issuance and certain other functions in the case of VAT e-invoice related activities.

Since all three VAT Invoicing Software are compatible only with e-invoices but not digital invoices, it is expected after China fully transitions into the Fourth Phase of the Golden Tax Project, all three information security hardware, including Golden Tax Disk, Tax Control Disk, and Tax UKey, as well as their corresponding VAT Invoicing Software will be gradually phased out, and the issuance and other invoice-related activities will be carried out through the Digital Invoice Service Platform through either Direct Connection System or Web-based System. Foreseeing this trend, leading market participants in China’s financial and tax-related transaction digitalization market, like us, have upgraded their financial and tax-related transaction digitalization software and solutions to be compatible with both e-invoices and digital invoices.

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Invoice Issuance through Other Methods

In addition to invoice issuances through the abovementioned three types of information security hardware and the corresponding VAT Invoicing Software, enterprises in China may issue invoices through other methods, including (1) through in-person application for paper invoice issuances at local branches of the SAT, (2) through tax server assemblies (税控盘组) and tax chips (核心板) that are typically adapted and developed by Watertek Group and acknowledged by the SAT for use by enterprises in China for invoice issuance purpose, and (3) through the Digital Invoice Service Platform. Similarly, it is expected that, after China fully transitions into the Fourth Phase of the Golden Tax Project, invoice issuances through tax server assemblies and tax chips as well as paper invoice issuances will be gradually phased out.

Main Differences between E-invoices and Digital Invoices

Digital invoice is a new type of invoice that has the same legal status as traditional paper invoices, but does not require physical medium or conventional prepositive procedures to use. Digital invoices fully digitize the information on paper invoices, and through tag management, integrate various types of invoices into a single electronic invoice category. The adoption of digital invoices facilitates the formation of a nationwide and uniform tax code system, assigns the total invoice issuance amount, and sets up digital invoice accounts to realize the automatic transfer and data collection of invoices. The following sets forth the main differences between digital invoices and e-invoices (i.e., digitalized form of traditional paper invoices):

- *Pre-issuance process:* Before issuance, e-invoices require taxpayers to apply for invoice type approval, information security hardware, and invoice numbers from relevant tax authorities. In contrast, digital invoices do not require such prepositive procedure before issuance.
- *Issuance limitation:* Same as traditional paper invoices, e-invoices can only be issued within a set quantity and face value limits, which requires taxpayers to apply for additional quantity and face value if such limitation is reached. Digital invoices utilize a “quota system,” where taxpayers can issue any amount and any number of invoices within the total face value granted by the SAT.
- *Invoice content:* Digital invoices no longer display information such as address and bank account, invoice code, and cipher area that is typically found on e-invoices. Digital invoices have a 20-digit code, compared to the 8-digit code for e-invoices. Digital invoices also eliminate the 8 line-item restriction found on e-invoices.
- *Issuance platform:* E-invoices are issued on public service platforms and can be issued offline. Digital invoices are issued on the Digital Invoice Service Platform, and can only be issued online.

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- *Invoice types:* E-invoices only include generic and special VAT e-invoices. Digital invoices integrate 17 standard invoice types into one electronic invoice category, and covers invoice types such as motor vehicle invoices, electronic passenger itineraries for air transportation, rail tickets, and general medical service invoices, among others.
- *Delivery method:* After issuance, e-invoices require the issuer to deliver the electronic data file (in formats such as open fixed-layout document (“OFD”)) to the recipient via email, SMS or mail. On the other hand, digital invoices automatically send the electronic data file to both issuer’s and recipient’s digital invoice accounts, which can automatically collect data on various types of invoices.
- *File format:* The electronic data file format for e-invoices is in OFD. Digital invoices add an internationally recognized XML pure data format while retaining formats like OFD and PDF.

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 tax invoice compliance management solutions, financial and tax management solutions, and supply chain collaboration solutions.

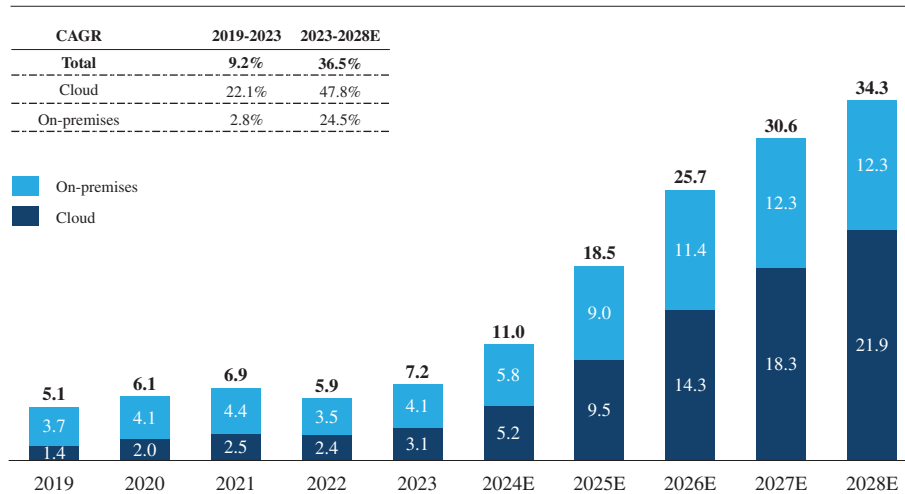
Tax invoice compliance management solutions centralize invoice management activities of an enterprise on a unified platform and digitalize the entire management process, including among others, issuance, delivery, verification and storage, which reduces the need for manual processing and improves transaction and management efficiency. Moreover, tax 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. 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, financial and tax management solutions help streamline enterprise budget control and the cumbersome manual reimbursement procedures. 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 RMB5.1 billion in 2019 to RMB7.2 billion in 2023, at a CAGR of 9.2%, and is expected to reach RMB34.3 billion in 2028, at a CAGR of 36.5% from 2023 to 2028.

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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 RMB1.4 billion in 2019 to RMB3.1 billion in 2023, at a CAGR of 22.1%, and is expected to reach RMB21.9 billion in 2028, at a CAGR of 47.8% from 2023 to 2028. 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 27.5% in 2019 to 43.0% in 2023 and is expected to reach 64.0% in 2028, 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.

Market size of China’s transaction digitalization, in terms of revenue

RMB Billion, 2019-2028E



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 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. See “—China’s Financial and Tax-related Transaction Digitalization Market—Background of China’s Financial and Tax-related Transaction Digitalization—History of Golden Tax Project in China” for details.

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

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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 21.4% of total market share in terms of revenue in 2023. We ranked second in China’s financial and tax-related transaction digitalization market, in terms of revenue, accounting for 4.9% of market share in 2023, 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 2023.

Ranking of China’s Financial and Tax-related Transaction Digitalization Solution Providers in Terms of Revenue in 2023

<u>Company</u>	<u>Revenue</u>	<u>Market Share</u>
	<i>(RMB million)</i>	<i>(%)</i>
Company A ⁽¹⁾	467	6.4
Our Group	358*	4.9
Company B ⁽²⁾	293	4.0
Company C ⁽³⁾	220	3.0
Company D ⁽⁴⁾	212	2.9

Source: F&S Report

* Represents our revenue from cloud and on-premises financial & tax digitalization solutions.

⁽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, 2023, the number of employees of Company A was approximately 18,000.

⁽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, 2023, the number of employees of Company B was approximately 130.

⁽³⁾ Company C is a private company with a registered capital of RMB72 million, founded in 2016 and headquartered in Beijing. Company C 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, 2023, the number of employees of Company C was approximately 200.

⁽⁴⁾ Company D is a private company with a registered capital of RMB10 million, founded in 2014 and headquartered in Beijing. Company D is a cloud solution provider that helps enterprises achieve cost reduction and efficiency improvement through a cloud reimbursement platform. As of December 31, 2023, the number of employees of Company D was approximately 90.

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Among the cloud financial and tax-related transaction digitalization solution providers in China, we ranked first in terms of revenue in 2023, accounting for a market share of 7.1%. In addition, with approximately 0.7 billion invoice processing requests fulfilled and approximately 2.6 billion VAT invoices issued through our cloud solutions in 2023, 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 Solution Providers in Terms of Revenue in 2023

Company	Revenue	Market Share
	<i>(RMB million)</i>	<i>(%)</i>
Our Group	220*	7.1
Company D ⁽¹⁾	170	5.5
Company E ⁽²⁾	120	3.9
Company B ⁽¹⁾	117	3.8
Company A ⁽¹⁾	93	3.0

Source: F&S Report

* Represents our revenue from cloud financial & tax digitalization solutions.

⁽¹⁾ See footnotes (2) through (4) to the first table under this sub-section.

⁽²⁾ 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 supply chain collaboration and VAT invoicing compliance via its cloud invoice management platform. As of December 31, 2023, the number of employees of Company E was approximately 110.

Ranking of China’s Financial and Tax-related Transaction Digitalization Solution Providers in 2023

Company	In terms of the number of invoice processing requests* fulfilled through cloud solutions in 2023
	<i>(in Billion)</i>
Our Group	0.7
Company A ⁽¹⁾	0.6
Company C ⁽²⁾	0.4

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Company	In terms of the number of VAT invoices issued through cloud solutions in 2023
	<i>(in Billion)</i>
Company A ⁽¹⁾	3.1
Our Group	2.6
Company C ⁽²⁾	1.3

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 (3) 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.

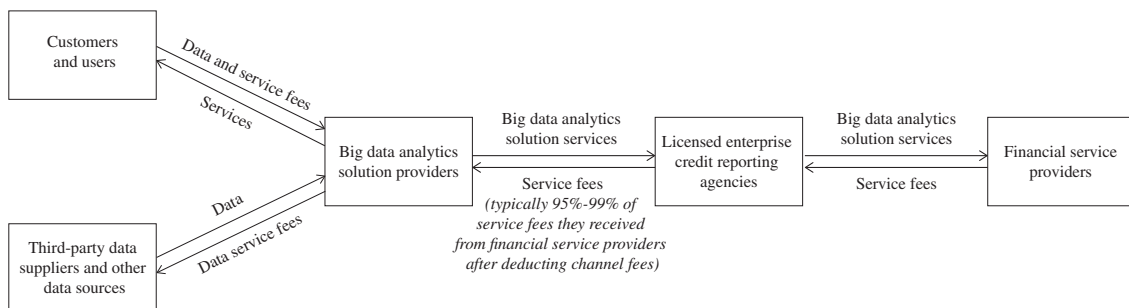
Experience in collaborating with regulatory authorities. As the financial and tax-related transaction digitalization solutions, especially the tax invoice compliance management solutions, are designed to strengthen enterprises’ compliance with applicable laws and regulations, leading market players that 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.

INDUSTRY OVERVIEW

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.

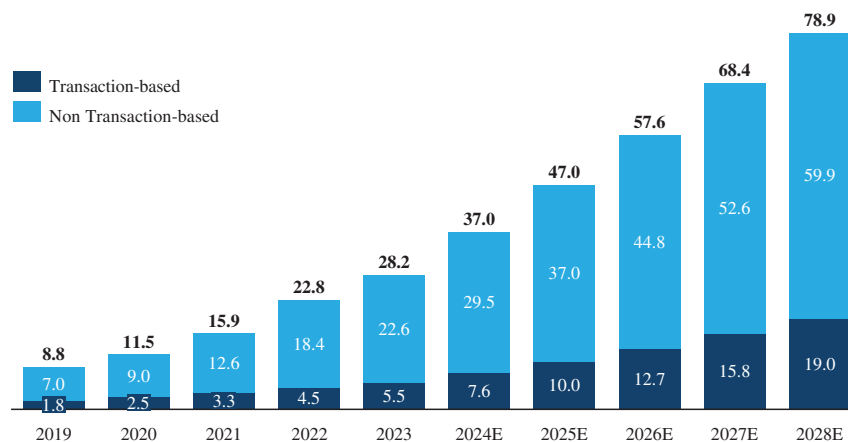
Big data analytics solutions are quickly adopted by China’s financial service industry, as big data analytics solutions can help financial service providers identify potential financial product users, customize financial product marketing strategies and detect and monitor credit risks.

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 RMB36.9 trillion in 2019 to RMB70.9 trillion in 2023, at a CAGR of 17.7%, and is expected to reach RMB126.4 trillion in 2028, at a CAGR of 12.3% from 2023 to 2028. 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 RMB8.8 billion in 2019 to RMB28.2 billion in 2023, at a CAGR of 33.7% and is expected to reach RMB78.9 billion in 2028, at a CAGR of 22.9% from 2023 to 2028, as illustrated in the following chart.

Market size of big data analytics solution for SMB financing, in terms of revenue

RMB Billion, 2019-2028E

	CAGR	2019-2023	2023-2028E
Total		33.7%	22.9%
Transaction-based		32.7%	28.0%
Non Transaction-based		34.0%	21.5%



Source: F&S Report

INDUSTRY OVERVIEW

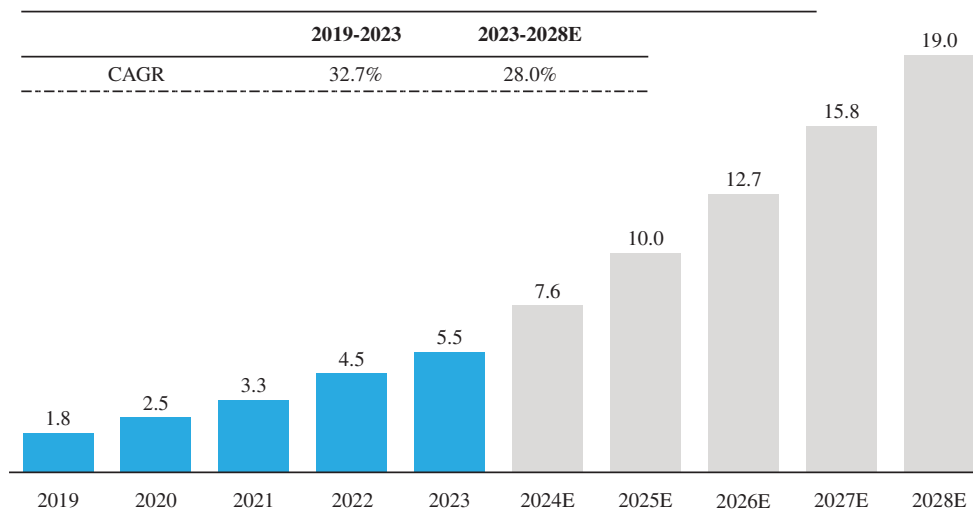
Transaction-based Big Data Analytics for SMB Financing Market

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.

Market size of transaction-based big data analytics solution for SMB financing, in terms of revenue

RMB Billion, 2019-2028E



Source: F&S Report

INDUSTRY OVERVIEW

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.

INDUSTRY OVERVIEW

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 2023. 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 2023.

Ranking of China’s Transaction-based Big Data Analytics for SMB Financing Solution Providers in 2023

<u>Ranking</u>	<u>Company</u>	<u>Revenue</u>	<u>Market Share</u>
		<i>(RMB million)</i>	<i>(%)</i>
1	Company A ⁽¹⁾	697	12.6
2	Our Group	352*	6.4
3	Company F ⁽²⁾	131	2.4
4	Company G ⁽³⁾	43	0.8
5	Company E ⁽⁴⁾	30	0.5

Source: F&S Report

* Represents our revenue from data-driven analytics services.

⁽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, 2023, 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, 2023, 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.”