Industry Report on China's Industrial Supply Chain Technology and Service Industry and MRO Procurement Service Industry

Content

Project Miracle - Industry Report

1. OVERVIEW OF CHINA'S SECONDARY INDUSTRY[1]

China's secondary industry is the largest globally in 2024 in terms of output value. China's comprehensive and sophisticated industrial ecosystem provides fertile ground for the industrial supply chain technology and service market. As industrial enterprises increasingly embrace the digital transformation of supply chain and adopt more innovative technology and services, China's industrial supply chain technology and service market is expected to grow significantly. As the digital transformation of the industrial supply chain continues to develop and evolve, market players are expanding their service offerings from facilitating information exchange to digitalizing every aspect of the industrial supply chain, from products, procurement, fulfillment to operations. They are also optimizing their technology and services to help their customers increase supply chain reliability, reduce costs, enhance efficiency, and ensure compliance.

1.1 Output Value of Secondary Industry

China's secondary industry has grown by more than 250 times in terms of output value over the past 47 years. China has established a world-leading, comprehensive and resilient modern industrial ecosystem, and has become the only country in the world that has all industrial categories listed in the United Nations Industrial Classification, including 41 major industrial categories, 207 medium industrial categories, and 666 industrial subcategories. The output value of the secondary industry in China has grown from RMB38.1 trillion in 2019 to RMB49.2 trillion in 2024 at a CAGR of 5.3%, and is expected to reach RMB57.2 trillion in 2029 with a CAGR of 3.1% from 2024 to 2029. China's secondary industry accounted for approximately 23.7% of the global secondary industry in terms of output value in 2024.

In comparison, the output value of the secondary industry in the United States, the European Union, and Japan reached RMB34.0 trillion, RMB30.5 trillion, and RMB8.6 trillion in 2024, respectively, with CAGR of 5.2%, 4.9%, and -2.8% from 2019 to 2024. The size and growth rate of China's secondary industry has outpaced those of the other major economies in terms of output value in recent years, such as the U.S., European Union and Japan. It is expected that China will continue to lead the growth of global secondary industry in the near future.

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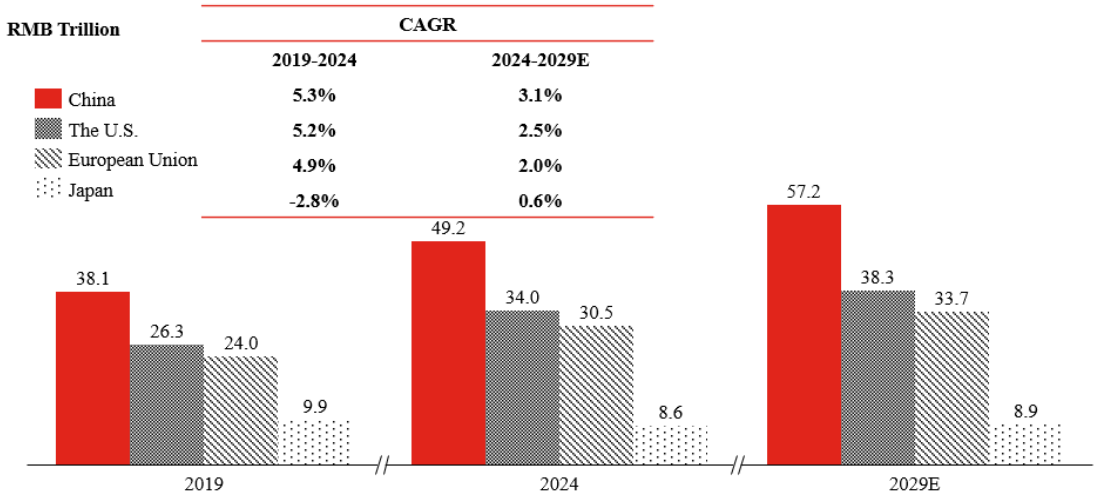
[1] *The secondary industry refers to mining, manufacturing, production and supply of electricity, heat, gas and water, as well as construction.*

The Output Value of the Secondary Industry, in China, the U.S., European Union, and Japan, 2019-2029E



Source: World Development Indicators, IMF, CIC Report

1.2 Comparison of Industrial Enterprises

Compared to the U.S., China has a more comprehensive and sophisticated industrial ecosystem, and has a greater number of leading industrial enterprises that features a highly fragmented landscape, possessing a greater number of leading industrial enterprises and more scattered SME factories. By the end of 2024, there were 72 "lighthouse factories"[2] in China, accounting for over 2/5 of the world's total, whereas only 11 "lighthouse factories" were in the United States. In addition, China's secondary industry had over 6.0 million industrial enterprises in total as of the end of 2024, among which small and medium-sized enterprises accounted for more than 98.0%, the majority of which are private companies, whereas the U.S. only had 0.8 million industrial enterprises. According to the National Bureau of Statistics, as of December 31, 2024, there were more than 38 thousand wholesalers of machinery and equipment, hardware tools and electronic products in China, most of which are small and medium enterprises as well. On the other hand, China has a significantly higher number of SMEs than the U.S., indicating a more fragmented market dominated by SMEs. This indicates that China has a more fragmented market. China's vast secondary industry, together with the fragmented market landscape, present huge opportunities for digitalization of industrial supply chains.

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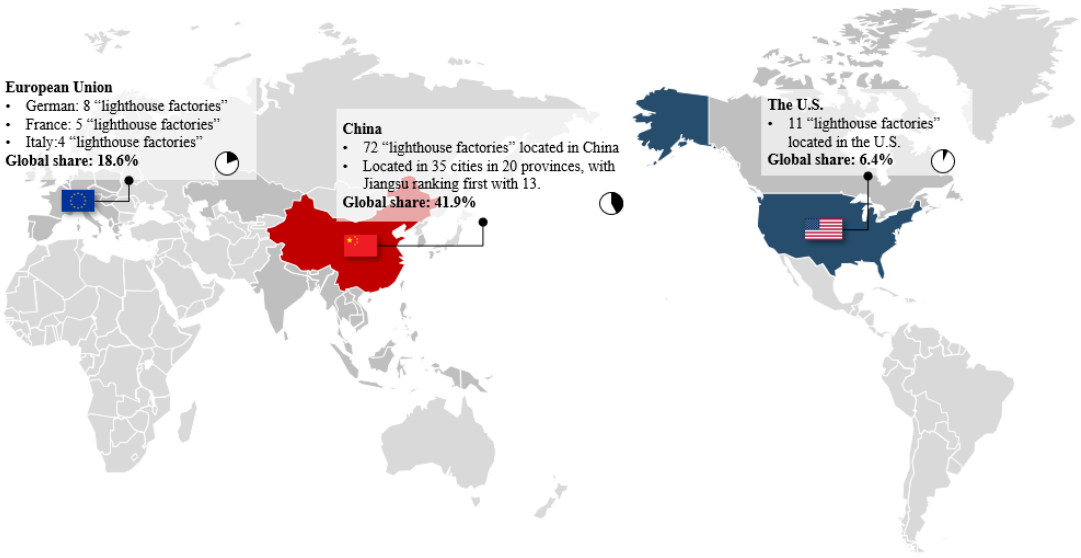
[2] *The "lighthouse factories" were selected by the World Economic Forum Davos. These lighthouse factories are considered as "the most advanced factory in the world", indicating "digital manufacturing" and "globalization 4.0." The lighthouse factories were selected to represent the highest level of smart manufacturing and digitalization in the global manufacturing industry today.*

Distribution of "Lighthouse Factories" in Different Countries



Source: Global Lighthouse Network: Adopting AI at Speed and Scale, CIC Report

China's industrial enterprises are faced with high operating costs and low procurement efficiency. According to the National Bureau of Statistics of China, the total operating costs for industrial enterprises above the designated size[3] in China reached RMB117.3 trillion in 2024 and accounted for 85.2% of their total operating revenue. Meanwhile, the digital penetration rate for China's enterprise procurement, defined as the digitalized procurement expenditure as a percentage of the total enterprise procurement expenditure, was only approximately 11% in 2024. Participants in China along the industrial supply chain have been calling for digital transformation to reduce costs and enhance efficiency, translating to significant growth potential for China's industrial supply chain technology and service market.

2. OVERVIEW OF CHINA'S INDUSTRIAL SUPPLY CHAIN TECHNOLOGY AND SERVICE MARKET

China has the world's largest secondary industry in terms of output value in 2024 and a complete yet complex industrial ecosystem, providing fertile ground for the industrial supply chain technology and service market. Traditional industrial enterprises are undergoing a profound digital transformation of their supply chain by embracing innovative technology and service, creating significant growth opportunities for China's industrial supply chain technology and service market. In the early stage, digitalization of industrial supply chain in China was limited to facilitating information exchange or building online transaction platforms, which only made marginal improvement to the traditional distribution model. As the digital transformation of the industry supply chain evolves, the market pioneer has expanded their services offerings

[3] *Refer to industrial enterprises with annual operating revenue of no less than RMB20 million from their main business.*

and developed end-to-end capabilities to digitalize every stage of the supply chain, covering product, procurement, fulfillment, and operation. They are also optimizing their technology and services to help their customers increase supply chain reliability, reduce costs, enhance efficiency and ensure compliance. It is expected to further optimize its digitalization services and solutions, empowering various participants along the industrial supply chain to achieve cost reduction and efficiency improvement.

2.1 Overview of China's Industrial Supply Chain Market

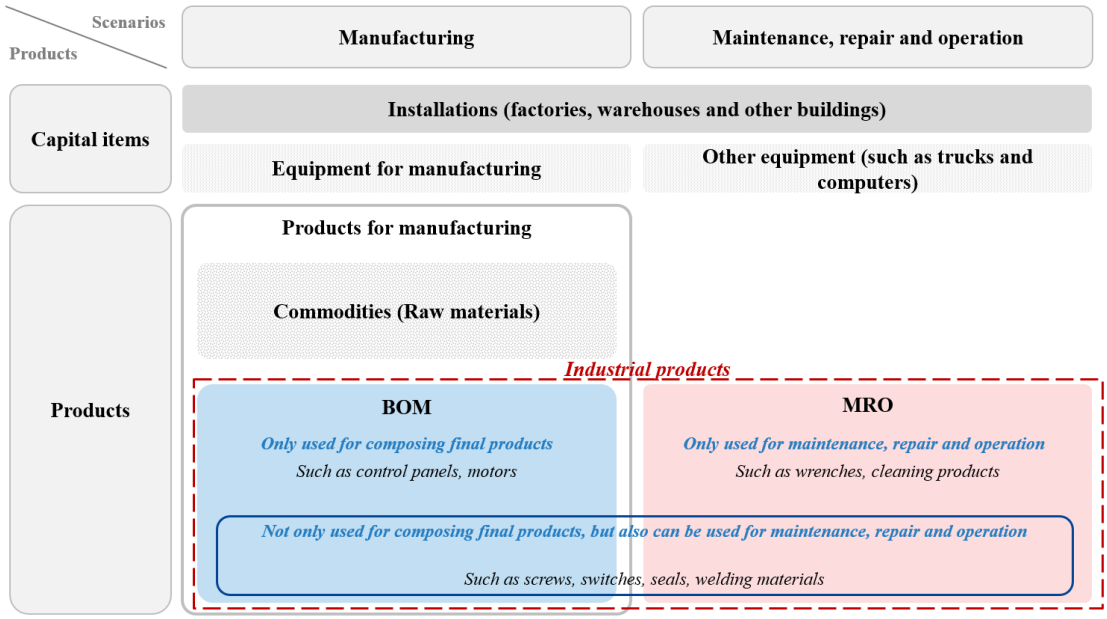
2.1.1 Definition of China's Industrial Supply Chain Market

There are two types of goods commonly used in industrial enterprises, which are capital items and products.

Capital items refer to installations such as factories, warehouses, and other buildings related to production and operations that have a useful life of more than one year and other items valued over RMB2 thousand with a useful life of more than two years. Examples include production machinery, trucks, and computers.

Products can be classified into commodities and industrial products. Commodities refer to raw materials used in the production of other products or services, including items obtained through extraction, drilling, farming, or breeding, such as crude oil and natural gas, which are primarily traded as futures. Industrial products consist of parts and materials in process for manufacturing and replacement use, and non-production tools used by industrial enterprises for daily operations, including MRO products and BOM products. Industrial products encompass massive categories and SKUs, and can be widely used for either for general purpose or professional purpose. In the meanwhile, the volume of supply and demand for industrial products varies from time to time resulting from changes in resource availability, government policies and regulations, costs of production, demand from customers and buyers, technological developments and fluctuations. And the price of products has historically been subject to substantial volatility, which, among other things, could be driven by economic, monetary, political or weather-related factors. The supply and demand for the industrial products derives from China’s secondary industry and hence is heavily dependent on the overall development and performance in such industry.

Goods Commonly Used in Industrial Enterprises



Source: CIC Report

The industrial supply chain market consists of sales of industrial products, and provision of services in sourcing, procurement, fulfillment, operation along the industrial supply chain between suppliers and customers.

2.1.2 Product Cost and Fulfillment Expense Analysis for the Industrial Supply Chain Market

In general, costs of and fulfillment expenses for industrial products increased from 2021 to 2024. In addition, costs of raw materials used in the products sold and energy costs can fluctuate significantly over time. Costs of most industrial products in China increased by approximately 10% from 2021 to 2023 according to Yongkang Hardware Product Price Index that was published with the approval by the MOFCOM, mainly as a result of the inflation and rising costs of raw materials used in industrial production. It is expected that the costs of industrial products will be relatively stabilized in the next five years. The temporary supply disruption and strains on product shipping and delivery due to the COVID-19 pandemic also led to increased fulfillment expenses from 2021 to 2022. In particular, shipping costs of industrial products significantly increased in 2021, which subsequently slightly decreased in 2022. The fulfillment expenses as a percentage of revenues were approximately 5% for the industry's top players in 2024. It is expected that the fulfillment expenses as a percentage of revenues will slightly decrease and be relatively stable in the next five years.

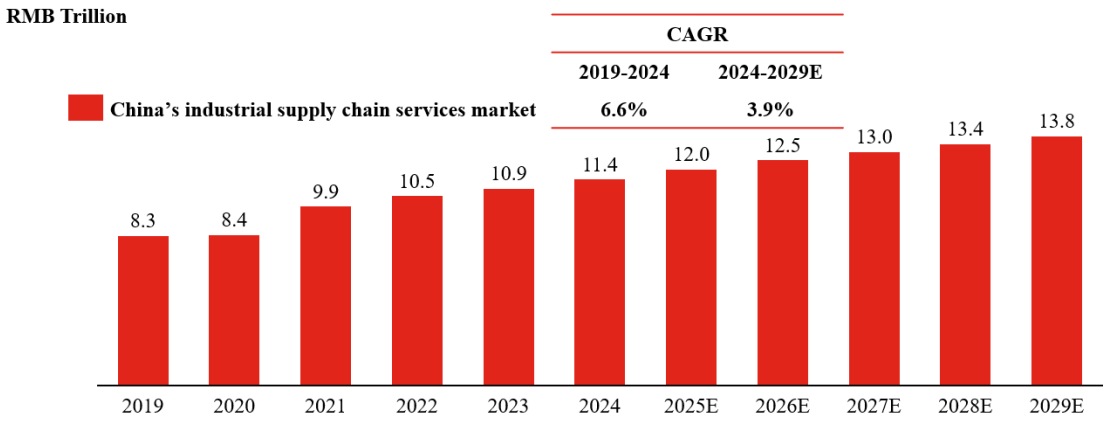
2.1.3 Comparison Analysis of China's and Overseas Industrial Supply Chain Market

China's industrial supply chain market grew at a CAGR of 6.6% from RMB8.3 trillion in 2019 to RMB11.4 trillion in 2024, and is expected to further grow at a CAGR

of 3.9% from 2024 to RMB13.8 trillion in 2029. In 2024, China led the global industrial supply chain market with the largest market size. The size of industrial supply chain market in the U.S. was RMB7.3 trillion in the same year, representing only 63.6% of that of China.

The digital penetration rate for China's enterprise sector, which is defined as the digitalized procurement as a percentage of the total enterprise procurement expenditure is approximately 11% by 2024, showing great potential for improvement.

The Size of China's Industrial Supply Chain Market in terms of GMV, 2019-2029E



Source: CIC Report

2.1.4 Pain Points Faced by China's Industrial Supply Chain Participants

Demand end

Lack of one-stop service. Despite customers' demand for end-to-end industrial supply chain digitalization, most market players are only able to provide isolated solutions covering one or just a few specific segments within the supply chain and fail to integrate digitalization and products, resulting in incompatibility among different systems, insufficient quality control, unsatisfactory customer services and inefficient operations.

Non-standardized products. China's industrial supply chain features a vast array of non-standardized products, leading to high communication and transaction costs for all industry participants. Customers often face difficulties in identifying and sourcing desired industrial products, resulting in low procurement efficiency and mismatches between demand and supply.

Lack of price transparency and inefficient procurement management. China's industrial supply chain also features complicated and highly fragmented intermediary channels with redundant distribution layers, resulting in information asymmetry and inefficiency across the supply chain. The pricing of industrial products is often opaque, with distributors and resellers charging unreasonably high price mark-ups. In addition, enterprises often have inefficient procurement management over the sourcing, procurement, and fulfillment processes of industrial products.

Unsatisfactory fulfillment. Customers often bear high fulfillment costs and endure unreliable or delayed product deliveries as a result of the fragmented supply

side, redundant distribution layers, poor coordination between warehouse and logistics service providers and insufficient last-mile delivery infrastructure, which disrupts their normal business operations.

Compliance risks. The complicated intermediary channels and information asymmetry in the industrial supply chain make consumers (especially large state-owned enterprises) expose to compliance risks. To address this issue, the Chinese government continues to impose strict compliance requirements on product procurement by proposing policies such as the "Sunshine Project."

Lack of digitalization. In general, the procurement process for medium and large enterprises is complex and has low digitalization, which results in high operating costs for the entire procurement process.

Supply end

Inefficient product and inventory management. The massive, non-standardized and long-tail feature of industrial products lead to difficulties on the supply side in predicting market demand, making accurate and informed production plans, and maintaining efficient inventory levels. China's industrial product suppliers are either faced with working capital management costs associated with excess inventory, or opportunity costs from missed sales.

Limited sales channels and depressed profit margin. The traditional supply chain framework typically has multiple layers of industrial product distributors and resellers. Manufacturers and other suppliers heavily rely on distributors and resellers to reach a limited number and types of customers. The profits that can be realized by manufacturers and other suppliers are significantly affected by this multi-layered distribution model, under which price mark-ups are charged by each layer of distributors and resellers.

China's industrial supply chain market is highly fragmented on both the demand and the supply ends, with redundant distribution layers, non-standardized product parameters and specifications, and inefficient procurement process control within enterprises, leading to high costs, inefficiency, and low procurement transparency across the industrial supply chain. These have caused inefficiencies across the value chain. At the same time, complicated intermediary channels, information asymmetry, and inefficient control over procurement process in industrial product procurement have resulted in high compliance risks for enterprises. As a result, industrial enterprises are very urgent to call for digital transformation to reduce costs and improve efficiency. Besides, there is continued introduction of policies such as sunshine procurement for SOEs and central enterprises, so the industrial digital supply chain upgrade is imminent.

2.2 Overview of China's Industrial Supply Chain Technology and Service Market

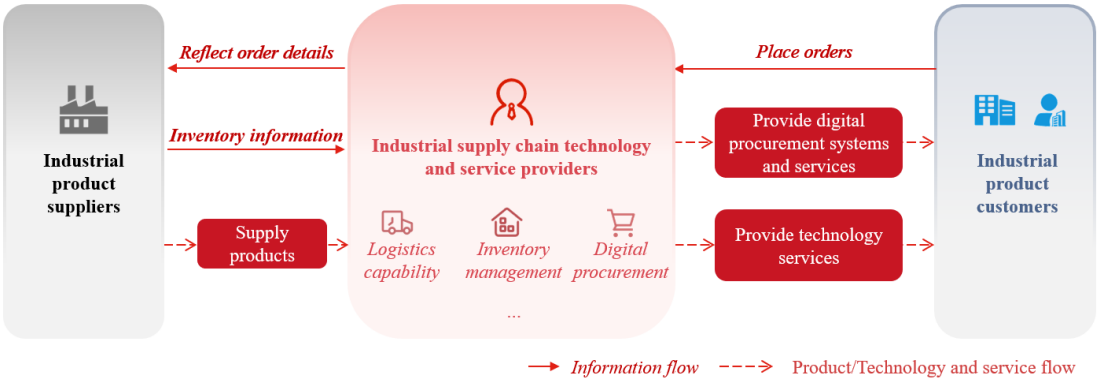
2.2.1 Definition and Market Size of China's Industrial Supply Chain Technology and Service Market

Industrial supply chain technology and service refer to technology and services provided to suppliers and customers of industrial products in order to increase supply

chain reliability, reduce explicit and implicit cost, improve efficiency, and ensure compliance by streamlining procurement and other operational processes through digitalization. It has been an inevitable trend in the industry to leverage technologies such as artificial intelligence and big data to reduce explicit and implicit supply chain related costs and improve supply chain efficiency by simplifying procurement and management process. While, the industrial supply chain technology and service market is still in its early stage of development in China, which may not develop into the stage and scale we expect. As it emerged in China only in recent years, the long-term viability and prospects of digitalizing the industrial supply chain in China remain untested and subject to significant uncertainties, with constant change and innovation. Moreover, the industrial technology solutions market is also at an early stage of development. There are uncertainties over the size and rate at which this market will grow, as well as whether industrial technology solutions will be widely adopted. The industrial technology solutions market is subject to rapid technological change, evolving industry standards, changing regulations, as well as changing customer needs, requirements and preferences.

Industrial supply chain technology and service providers connect industrial product suppliers with customers by utilizing their technology and service capabilities, while traditional industrial product suppliers, who are typically product-centric, are confronted with higher working capital requirements and are more prone to hit growth ceilings as their know-how and technology infrastructure quickly become obsolete as they expand. The Online platforms act as platforms for creating free network traffic flow, providing sales channels for direct and timely interaction between suppliers and customers. It leverages technologies such as artificial intelligence and big data to match the demand and supply side perfectly, with simplification of delivery process and promotion of post-procurement services, making it an inevitable trend for the industry's development. The following diagram sets forth the value chain of this market:

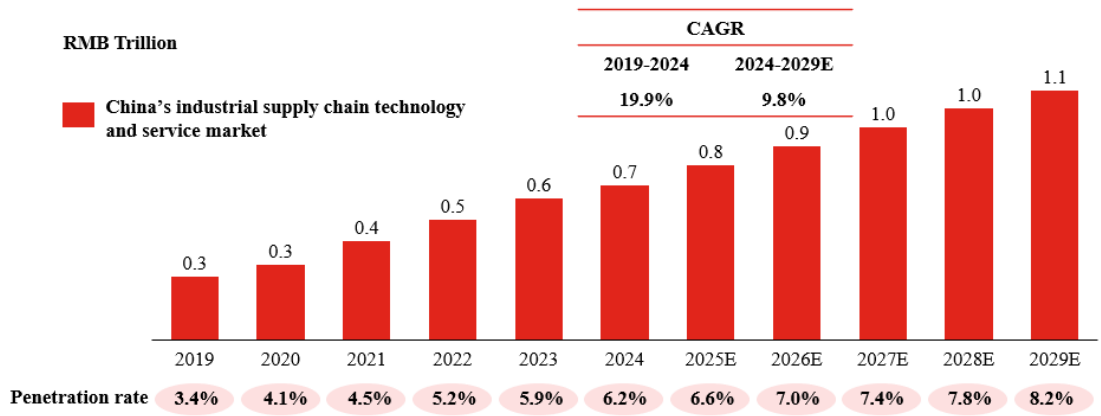
Value Chain of China's Industrial Supply Chain Technology and Service Market



Source：CIC Report

The size of China's industrial supply chain technology and service market in terms of GMV was RMB0.7 trillion in 2024 and is expected to reach RMB1.1 trillion by 2029 at a CAGR of 9.8%. China's industrial supply chain technology and service penetration rate, defined as the size of the industrial supply chain market divided by the size of the industrial supply chain market, was 6.2% in 2024, while this rate in the U.S. was approximately 15%. China's industrial supply chain technology and service penetration rate is expected to increase significantly to 8.2% in 2029. In addition to the Company, other major Chinese industrial supply chain technology and service providers include EHSY, CECport, JLC Technology Group and ZKH. The increasing digital penetration is expected to drive the industrial supply chain technology and service market. Compared with supply chain market in other Business-to-Business(B2B) industries, the industrial supply chain technology and service market has larger market size with large potential for penetration rate to improve. As the industry increasingly shifts towards digitalization, traditional players may lack the capabilities or resources to digitalize their operations, while e-commerce marketplace players normally have limited domain knowledge to resolve systemic supply chain problems.

The Size of China's Industrial Supply Chain Technology and Service Market in terms of GMV, 2019-2029E



Source：CIC Report

2.2.2 Comparison Analysis of China's Industrial Supply Chain Technology and Service Market and Consumer Internet Market

Compared with consumer internet market, industrial supply chain technology and service market has only a limited number of reputable third-party online payment platforms currently and still has a lot of room for growth. In 2024, the market size of industrial supply chain technology and service market was approximately 0.7 trillion, with penetration rate was 6.2%, while the market size of consumer internet market reached 13 trillion and penetration rate was approximately 27%. Therefore, the industrial supply chain technology and service market still has a significant opportunity to grow.

2.2.3 Drivers of China's Industrial Supply Chain Technology and Service Market

Increasing need for procurement digitalization to reduce cost and improve efficiency. Chinese industrial enterprises have been long suffering from high operating costs and low procurement efficiency. They have imminent demand for cost reduction and efficiency improvement to maintain competitiveness. Upstream suppliers of industrial products are highly fragmented in China, and most of them only offer limited categories of industrial products. Therefore, procurement departments of industrial enterprises often have to purchase all needed products through a multi-layered distribution chain, resulting in increased labor and procurement costs. As a result, more and more industrial enterprises are having imminent demand for industrial supply chain technology and service providers who can offer comprehensive categories of industrial products, provide transparent pricing information, and provide timely and reliable product fulfillment, which presents huge opportunities for industrial supply chain technology and service providers to gain a foothold in the market.

Need for transparent procurement and support of the "Sunshine Project". Chinese industrial enterprises have placed increasing emphasis on transparent procurement. The Chinese government has implemented the "Sunshine Project[4]" since 2015, and further announced the launch of Phase IV of the Golden Tax System (GTS) in 2022. These policies further propel enterprises to shift their procurement process online and ensure transparent procurement. A growing number of enterprises have realized the benefits of transparent procurement and have started embracing supply chain digitalization, driving the development of industrial supply chain technology and service.

Convenience of online procurement for industrial enterprises. More and more Chinese industrial enterprises demand for online procurement platforms that integrate all the industrial supply chain services, including product ordering, online payment,

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[4] *The "Sunshine Project" was established in 2015 by the Chinese government in order to improve transparency in the enterprise procurement process.*

logistics information, invoice reconciliation, after-sales management and others, to satisfy their procurement demand with convenience and efficiency.

Development of technology infrastructure. With the rapid development of technologies, such as big data, cloud computing and AI, the digitalization within enterprises' internal operations has greatly improved and digitalization solutions including SaaS are more widely and frequently used. These technologies propel Chinese industrial enterprises to establish and maintain better connection with digital platforms and function modules offered by industrial supply chain technology and service providers. Moreover, the development of advanced technologies also elevates the digitalization level of various stakeholders, such as suppliers and logistics service providers, across the industrial supply chain, paving the way for the adoption of online procurement.

2.2.4 Future Trends of China's Industrial Supply Chain Technology and Service Market

Product category expansion. Leading industrial supply chain technology and service providers are expected to rapidly expand their offerings from general-purpose MRO products to professional MRO products, and are penetrating into BOM products

Penetration of digitalization. With the continuous development of technologies, industrial supply chain technology and service providers are expected to continuously expand and deepen the use of digitalization technologies to improve overall supply chain efficiency.

Increasingly comprehensive solution offerings. The innovative services participants provide customers with increasingly comprehensive and integrated digital procurement solutions and technology services, thus realizing the digitalization along supply chain segments, including customer management, production planning, procurement planning, and inventory planning, to improve the overall efficiency of business operations.

Increase in market concentration. Leading industrial supply chain technology and service providers are expected to continue to consolidate the industry through market share gains by leveraging economies of scale and other competitive advantages, which leads to improved profitability for themselves.

Globalization. Leading industrial supply chain technology and service providers are expected to continue to explore global business opportunities through organic business expansion and/or mergers and acquisitions to expand their international footprint.

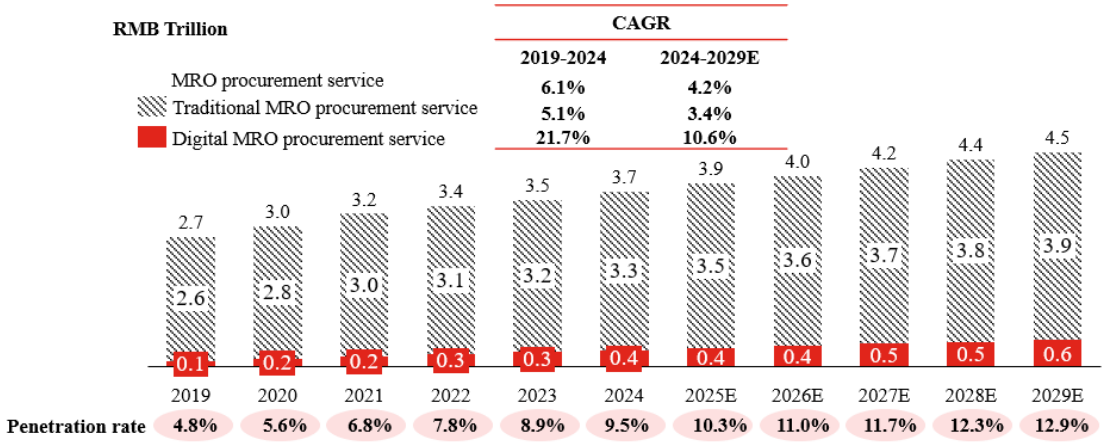
3. OVERVIEW OF THE MRO PROCUREMENT SERVICE INDUSTRY IN CHINA

3.1 Definition and Market Size of China's MRO Procurement Service Market

MRO products refer to maintenance, repair, and operations, meaning goods that support production or business operation, but do not become parts of the final products, which are used for either general purposes or professional purposes in specific industrial scenarios covering a wide range of consumables and equipment categories. MRO procurement service refers to the sourcing, procurement, and other services of MRO products rendered along the supply chain.

The market size of the MRO procurement service in China in terms of GMV was RMB3.7 trillion in 2024, which was more than three times of that in the U.S., and is expected to reach RMB4.5 trillion in 2029, representing a CAGR of 4.2%.

The Size of MRO Procurement Service and Digital MRO Procurement Service Market in terms of GMV, China, 2019-2029E

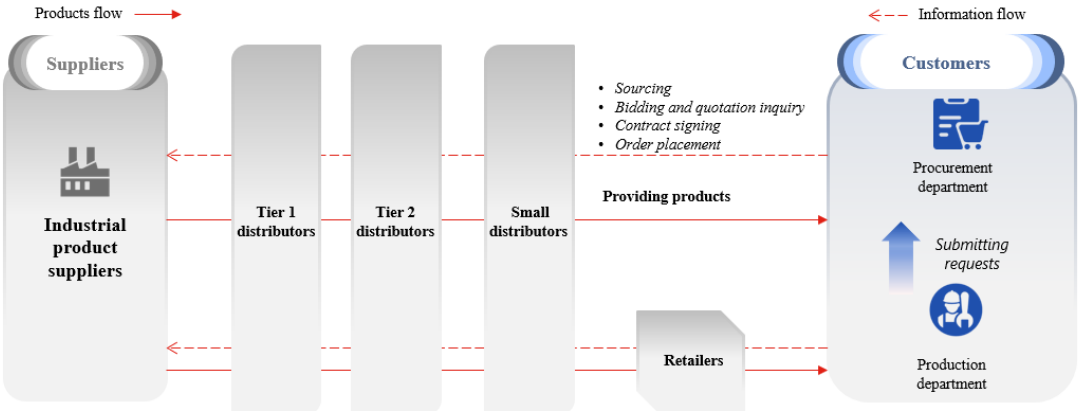


Source: CIC Report

3.2 Value Chain of China's MRO Procurement Service Market

The traditional MRO procurement process begins with submitting requests by the production department. After the completion of internal approval of the enterprise, the procurement department starts purchasing and selecting suppliers according to product requirements. Meanwhile, suppliers typically sell MRO products through a complex network with multiple layers of distributors. Traditional MRO procurement is a complex and drawn-out process, and the Chinese market for traditional MRO procurement services is extremely fragmented. Low transparency, ineffective MRO procurement, and dissatisfactory customer experiences are the results of these problems. The market size of the traditional MRO procurement services in China in terms of GMV was RMB 2.6 trillion in 2019, RMB3.3 trillion in 2024, and RMB3.9 trillion in 2029, representing a CAGR of 5.1% from 2019 to 2024 and 3.4% from 2024 to 2029.

Traditional MRO Procurement Process and Value Chain in China



Source：CIC Report

3.3 Pain Points of China's Traditional MRO Procurement Service Market

The pain points faced by supplier include:

Difficult to get timely market feedback. MRO brand owners and manufacturers traditionally relied on a complicated network for product distribution. Therefore, there is a lack of direct access to end customers.

The pain points faced by industrial enterprise include:

Ineffective inventory management. Due to unplanned procurement requests or inaccurate forecasts, inventory levels are substantially lower or higher than necessary, leading to increases in the costs of the industrial enterprise.

Opaque pricing and asymmetric information. The complex distribution network faced by industrial enterprises in the MRO procurement industry may generate concerns about pricing transparency, product, service quality and reliability.

Inefficient sourcing by industrial enterprises. The wide variety of MRO products makes it difficult and time-consuming for industrial enterprises to find specific products or reliable suppliers. Due to their limited access to procurement, regional and local businesses frequently rely on local suppliers (like retailers) for purchases, particularly for their unplanned needs.

High administrative costs. Due to the nature of MRO items, purchases are frequently made on a recurring basis in small volumes and multiple batches, which can result in a repetitive transaction process and increased administrative costs.

The pain points faced by retailer include:

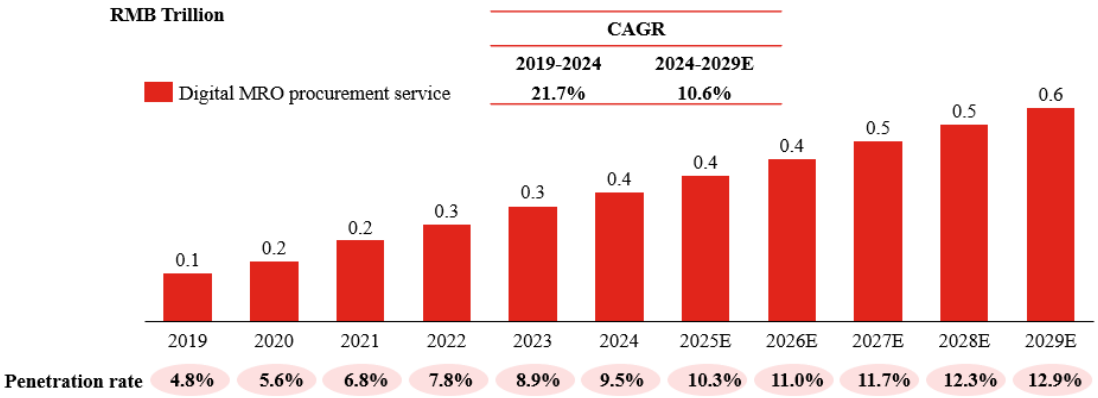
Retailers struggle to meet the requirements of their customers. Retailer's customer demand is frequently unpredictable, and retailers struggle with a relatively low purchasing volume, a limited ability to carry out a thorough product selection, and potentially expensive procurement expenses. The product price is frequently excessively expensive, or the product category is too insufficient.

3.4 Definition and Market Size of China's Digital MRO Procurement Service

Digital MRO procurement service shifts the MRO procurement process from offline to online, in the form of e-commerce platform, digital procurement system interface or digital procurement equipment. Digital MRO procurement service streamlines the procurement process and provides data insights for suppliers and customers, thus increasing reliability and transparency of the procurement process, reducing cost and improving efficiency across the supply chain.

The market size of China's digital MRO procurement service industry in terms of GMV reached RMB0.4 trillion in 2024, and is expected to reach RMB0.6 trillion in 2029, representing a CAGR of 10.6%. China's digital MRO procurement service penetration rate, defined as the market size of digital MRO procurement service divided by the market size of MRO procurement service market, was 9.5% in 2024 and still relatively low as compared to that of the U.S., which was over 15% in 2024. China's digital MRO procurement service penetration rate is expected to reach 12.9% in 2029, driven by increasing acceptance of digital MRO procurement services due to their convenience, transparency and cost-effectiveness.

Market Size of Digital MRO Procurement Service Industry, in terms of GMV, China, 2019-2029E



Source: CIC Report

3.5 Drivers of China's Digital MRO Procurement Service Market

Increase in transparency of purchasing process. Online platforms effectively enhance price transparency and provide transaction information which can be checked, tracked, and compared.

Cost reduction and efficiency improvement of procurement. Online platform offers a one-stop solution for businesses to find various categories of needed MRO products precisely and quickly among its massive products assortments.

Digitalization trend of industrial enterprise. With the development of information technology, such as AIoT, SaaS and intelligent logistics, industrial enterprises begin to purchase through online platforms.

Reduction in inventory level. MRO inventories are frequently significantly greater than necessary as a result of excessive safety stock goals and erroneous estimates. In order to produce more precise estimates, digitalized analytics can examine actual consumption data and execute repeated simulations.

3.6 Future Trends of China's Digital MRO Procurement Service Market

Merger & Acquisitions(M&A). Due to insufficient external demand and limited support from domestic demand, industrial enterprises face development challenges and are becoming more cautious in selecting digital MRO procurement solutions, favoring leading providers with comprehensive solutions and extensive industry experience. This poses survival challenges for smaller players, who may face the possibility of future mergers or acquisitions by larger providers. The Matthew effect of capital will cause the quick expansion of the online MRO procurement service platform as the market for online MRO procurement progressively comes to the attention of investors, resulting in mergers and acquisitions in the years to come.

Full coverage of niche product. Demand for niche products brought industrial enterprises and suppliers' difficulty in finding, pricing, and other problems. In the future, as rapid SKU expansion, the niche products will be fully covered.

Intelligent matching of supply and demand. Electronic product iterations and advances in Internet technology make it easier to accumulate data, and precise matching of products to customer needs can improve transaction efficiency.

Self-operating trend and cooperate with more third-party companies. Self-operation models are highly autonomous and controllable, which makes it simpler to develop core competitiveness. The regional long-tail demand can be better met by bringing in additional third-party partners to increase the business size and encouraging a broad business layout across the country.

3.7 Comparison of China's and the U.S. MRO procurement service Market

The leading digital MRO procurement public companies in the U.S. had an average gross margin of above 30% and an average net margin of above 10% in 2024. Benchmarking to the U.S. players, the leading players in China's digital MRO procurement market potentially have further headroom to improve their profitability as penetration of digital MRO procurement service within the broader MRO procurement service industry further increases and the competitive landscape becomes more concentrated.

The top 10 companies account for approximately 30-45% of the U.S. digital MRO procurement services market in terms of GMV. Compared to the mature and stable stage in the U.S., China's digital MRO procurement market was still relatively fragmented. It is expected that the concentration rate in China will further increase, considering that the top players faced M&A opportunities and can further expand their business footprint to improve competitive advantages. The concentration rate in China is expected to increase further given the high entry barriers and the remarkable competitive advantages of the leading players.

4. EVOLUTION OF THE COMPREHENSIVE INDUSTRIAL SUPPLY CHAIN TECHNOLOGY AND SERVICE MODEL

4.1 Major Types of Business Models for China's Industrial Supply Chain Technology and Service

Distinguished by fundamental differences in business models, there are three major types of participants in the industrial supply chain technology and service market. Traditional self-operated model participants often take heavy inventories and build fulfillment capabilities of their own, using digitalization tools to marginally improve the efficiency of their distribution model. Participants with e-commerce marketplace model build online platforms mainly to facilitate the exchange of information without deeply digitalizing the whole process. Meanwhile, comprehensive model participant represented by the Company strives to build end-to-end digitalization capabilities, providing the infrastructure for participants across the supply chain to achieve overall efficiency improvement, instead of acting purely as a distributor providing limited value-added along the value chain or merely matching supply and demand without enhancing overall efficiency.

4.2 Comparison Analysis of Different Business Models for China's Industrial Supply Chain Technology and Service Market

China's industrial supply chain technology and service providers have three major types of business models:

• Comprehensive model: Comprehensive industrial supply chain technology and service providers, as represented by the Company, are capable of bringing forth end-to-end digital transformation for the entire industrial supply chain. This unique feature differentiates such providers from their peers that adopt a direct sales or a marketplace model, both of which are more limited in terms of their value-add to the industry.

• Direct sales model: Providers with a direct sales model often bear inventories and have to build out their own fulfillment capabilities. They use digitalization tools to complement their existing business models.

• Marketplace model: Marketplace providers develop and operate online platforms mainly to facilitate information exchange without fundamentally digitalizing the whole industrial supply chain, due to their limited domain knowledge.

Comparison Among Major Models of China's Industrial Supply Chain Technology and Service Providers

Participant type	Product coverage	Product digitalization	Efficiency improvement	Cost reduction	Service coverage	Technology services
Comprehensive Model	●	●	●	●	●	●
Direct Sales Model	◕	◕	◕	◕	◕	◔
Marketplace Model	◕	◔	◕	◔	◔	◔

● Significantly improved or fully covered
◕ Partially improved or covered
◔ Slightly improved or covered

Source: CIC Report

4.2.1 Advantages of China's Comprehensive Industrial Supply Chain Technology and Service Model

Comprehensive offerings. Comprehensive industrial supply chain technology and service providers digitalize the entire supply chain by leveraging technologies. They integrate resources across the supply chain, including industrial product inventories, production capacities and fulfillment resources. They also provide technology and other services to assist customers in efficiently managing their product procurement and equipment lifecycles. Additionally, it aims to realize demand-driven production through optimized supply-demand matching, thus reducing the inventory burden for suppliers and customers.

Efficiency improvement. Comprehensive industrial supply chain technology and service providers enable industrial product suppliers to enjoy improved demand forecast, make informed decisions and maintain efficient production processes by leveraging their industry insights and know-how. Customers also benefit from a one-stop procurement platform provided by comprehensive industrial supply chain technology and service providers to improve their procurement and operation efficiencies. According to a survey conducted by CIC, the overall procurement period of industrial products, defined as the period of time from the generation of procurement requests to the final delivery of industrial products, can be generally reduced by more than 30% by using services provided by comprehensive industrial supply chain technology and service providers.

Cost reduction. Inventory management solutions provided by comprehensive industrial supply chain technology and service providers can significantly reduce inventory management costs for both suppliers and customers. In addition, digitalization of supply chain improves transaction transparency and procurement efficiency, lowering overall costs for industrial enterprises. According to a survey

conducted by CIC, the overall procurement cost, defined as the total cost incurred during the entire industrial supply chain, can be reduced by approximately 20%-30% by using services provided by comprehensive industrial supply chain technology and service providers, compared to when these services were not adopted by industrial enterprises.

4.2.2 Limitations of Other China's industrial supply chain Model

Limitations of traditional self-operated model:

Insufficient Resource mobilization. Due to insufficient ability to link information and data of the whole supply chain, the capacity of mobilizing exist resources is low. Incomplete knowledge of overall inventory among industrial supply chain causes excessive inventory, leading to poor control of product prices and inventory, and further exacerbate demand mismatch.

Poor fulfillment efficiency. The efficiency of procurement and delivery cannot be maximized since there is a delay for connecting suppliers' and customers' demand information. The traditional self-operated model has a low coverage of post-procurement related services, as demonstrated by delayed deliveries, untimely fulfillment and unqualified sales guarantee.

Excess unnecessary costs. The weak digital intelligence empowerment for suppliers causes the platform itself is weak in the whole supply chain of information and data access, which cannot reach the optimal cost control of compliance and sales. Meanwhile, due to insufficient intelligence and poor integration of social resources, the matching degree of self-provisioned goods and the turnover of goods are not optimal, leading to higher storage cost.

Limitations of e-commerce marketplace model:

Low digitalization and demand mismatch. The e-commerce marketplace model only provides a platform to integrate various industrial products of upstream suppliers for customers, with little empowerment for digitalization, resulting in poor quality assurance capability of products and insufficient ability to perfectly match the demand of end users.

Lack of efficient coordination. Due to the insufficient layout of the industrial supply chain and post-procurement services, it lacks comprehensive solution design and customer service, which is not enough to help industrial enterprises improve the efficiency of commodity procurement and use.

Lack of price transparency. Suppliers still have heavily influence to products, which the platform does not completely solve the industry pain point of insufficient price transparency. While the layout of the whole supply chain of services is weak, which still generates a lot of explicit and implicit costs for the fulfillment, delivery and post-procurement services after the order is placed.

4.3 Represented by JDI, Industrial Supply Chain Technology and Service Providers Empower the Efficiency of China's Industrial Supply Chain Market

4.3.1 Empower All Aspects of China's Industrial Supply Chain Services

China's industrial supply chain technology and service providers, represented by JDI, have revolutionized industrial supply chain management through end-to-end digitalization in products, procurement, fulfillment, and operations, which enables us to connect a massive number of suppliers and customers, leading to significant operational synergies for all participants along the supply chain. The Company has a broad presence across different industry verticals, particularly in manufacturing, energy, transportation, and general industries. The Company has the broadest coverage of the suppliers in the industrial supply chain technology and service market in China in 2024.

As China's leading online retailer, JD.com sets the standard for ecommerce through its relentless commitment to quality and authenticity which became the benchmark for the industry. Both JD Group and JDI are operating in the internet industry in China. And JDI is a pioneer in adopting a transformational end-to-end digitalization approach to address industrial supply chain challenges holistically in China, embracing a differentiated business model and inherit JD Group's profound domain knowledge in supply chain management. Its CEO, Mr. Song is one of the very few talents in the industry who possess the unique combination of abundant internet sector experience, deep insights into the enterprise market, and substantive expertise in digital supply chain technologies. Mr. Song has been a trailblazer in the industry, propelling and catalyzing the digital transformation of the industrial supply chain. JDI's unique expansive business model has enabled it to rapidly broaden offerings across industries, product categories, and use cases, resulting in significant cost reduction and efficiency enhancement for the industry. Mr. Song pioneered the industry in the implementation of the concepts of warehouse aggregation (萬倉合一) and order aggregation (萬單合一) throughout the internet era.

Leveraging such well-established brand image, JDI has successfully penetrated high-value customer base across a myriad of industry verticals, earning widespread brand recognition and enduring customer loyalty.

JDI is the leading provider of industrial supply chain technology and service in China in terms of GMV in each year during the Track Record Period. Through transformative digitalization of the industrial supply chain, JDI helps its customers increase supply chain reliability, reduce costs, enhance efficiency, and ensure compliance. By focusing on addressing the common fundamental needs of various industries and customer groups, it spends great efforts in cultivating our digital supply chain capabilities to be interoperable across industries, product categories, and use cases, serving with high-quality industrial products and better satisfying the varied needs from the demand end. The industrial product offerings available on JDI platform are the broadest in China in terms of number of SKUs as of December 31, 2024, which accumulated invaluable business insights after years of growth.

JDI also coordinated with major logistics service providers in China and use advanced algorithms to generate optimal fulfillment plans. The Mercator product library is a vital component of its product digitization, thereby effectively reducing communication and transaction costs in the procurement process. It draws on extensive industry expertise, broad selection of products, and advanced data analytics and AI technologies to display comprehensive and detailed product information and empower our customers, which offer comprehensive and tailored procurement management services for our customers in various industries to efficiently search products. Its technological capabilities enable swift implementation of digital connections, aiming to address the inconsistency in product parameters and incompleteness in product offerings. Its platform offers general-purpose MRO products, professional MRO products, and BOM products to key accounts, SMEs, and others. It leverages AI capabilities and large datasets accumulated from a wide range of business scenarios along the industrial supply chain.

As an enterprise services industry, the industrial supply chain technology and service sector requires a unique set of skills from executive management to be successful and reduce risks, for example, unexpected attacks through unauthorized access or sabotage systems change, challenges the ownership of open-source software and compliance with open-source license terms. In addition, costs of raw materials used in the products sold on the platform and energy costs can fluctuate significantly over time. Increases in these costs result in increased production costs for suppliers, who typically look to pass their increased costs along to platform providers through price increases. These potential risks require skills include a deep comprehension of the industrial supply chain, in-depth product and vertical knowledge, a robust technical background, and proven operational execution capabilities, with evolving sales and marketing approaches and tools in the market.

In terms of service fee, fixed fees could be burdensome to third-party merchants with smaller business scale. The switch to fixed percentage of sales allows JDI to fairly treat and better attract third-party merchants of all sizes, thereby further expanding the product offerings on its platform.

Supply-end participants' decisions to become JDI suppliers and/or to register as third-party merchants depend on their own business decisions and needs, as long as all registration requirements are satisfied. Furthermore, demand-end participants freely decide whether to purchase from JDI or from third-party merchants based on their demand of products and requirements of related services.

JDI spearheads the digital transformation of every aspect of the industrial supply chain from products, procurement, fulfillment to operations, establishing an end-to-end digital infrastructure. Leveraging its digital infrastructure and its extensive experience serving millions of customers, JDI has developed Taipu, a digital industrial supply chain total solution that seamlessly integrates digitalization and products. JDI has facilitated a smoother synchronization between the procurement needs of the customer demand side and the industrial supply side, optimizing matching accuracy, fostering higher collaboration efficiency, and ultimately, enhancing the overall reliability and agility of the industrial supply chain.

Product digitalization: Industrial enterprises often struggle with the need to cope with a vast array of non-standardized products, leading to high communication and transaction costs for all industry participants involved. To address such challenge, we have developed our proprietary Mercator product library, which standardizes and unifies product parameters and specifications across a massive and extensive variety of SKUs. Our product library defines clear product parameters and specifications that are ultimately accepted and widely adopted by both of our customers and suppliers. By developing a standardized product library, we have effectively decoupled definitions of product parameters and specifications from supplier-specific labels, assisting our customers in managing their procurement processes in a compliant and transparent manner. Product digitalization lays the foundation for our total solution to digitalize the entire industrial supply chain, and has systematically enhanced efficiency for both the supply and demand ends.

Procurement digitalization: Industrial product procurement has traditionally been a cumbersome and nontransparent process. JDI offers full-suite digital procurement services that navigate complex procurement of industry supplies, streamlines periodic procurement of production materials, and facilitates small-scale, scattered procurement of long-tail products, thereby empowering its customers with a transparent, efficient, and cost-effective procurement experience. The Company's digital procurement platform is differentiated by our rich selection of product categories, ability to deliver customized solutions to serve a wide spectrum of customers based on their needs, and speedy implementation supported by strong technical capabilities. JDI provides comprehensive suite of digital procurement solutions, including marketplace solutions, supplier relationship management solutions, and tendering solutions. JDI empowers its customers in a comprehensive and systematic manner by offering massive products, breaking the information barriers, and facilitating synchronization between supply and demand. Customers can therefore place orders in a standardized, automated fashion, minimizing manual engagement throughout the procurement process, which leads to higher procurement efficiency and accuracy, as well as better compliance risk management.

Fulfillment digitalization: Inefficient inventory management and fulfillment processes are common challenges to enterprises along the industrial supply chain. JDI leverages accurate demand forecasts and advanced fulfillment network to achieve efficient inventory management. It digitalizes fulfillment by utilizing the big data and algorithm-driven smart decision-making system to determine the most optimal fulfillment process based on key variables such as cost, inventory location and availability, delivery timing, service quality, settlement period and supplier scores. It has amassed all major third-party logistics service providers in China to ensure sufficient and superior fulfillment capacity. Besides, it intelligently sources supply by mapping inventory available from distributors and resellers and production capacity from manufacturers, which fulfill customer orders in a cost-effective manner by minimizing inventory, warehouse, and transportation costs, while also ensuring precise delivery of customer orders with real-time traceability. JDI operates a number of fulfillment facilities and has deployed various types of new-generation digital facilities,

such as enterprise distribution centers, Jinggong Cabinets, front warehouses, and intelligent mobile warehouses. Such superior inventory management capability has helped JDI achieve inventory turnover days attributable to continuing operations of 14.8 days in 2024, demonstrating its industry-leading inventory turnover efficiency. As a result, it has effectively satisfied its customers' needs while achieving remarkably low inventory turnover days.

Operation digitalization: JDI has expanded beyond merely digitalizing its customers' core procurement processes, presenting an all-encompassing suite of closed-loop digital services to its customers. JDI crafts tailor-made service proposals and meticulously adapts its digital infrastructure to best suit its customers' specific use cases and internal workflows. Its closed-loop digital services, such as smart settlement services, supply chain compliance control, supply chain control and management system, smart customer services, and tailored professional aftersales services, are seamlessly designed and implemented under flawless integration. As its digital infrastructure becomes increasingly interwoven with those of our customers, JDI is able to further elevate customer experience, cultivate customer loyalty, and capture a greater wallet share of their overall procurement spending.

Through the end-to-end digitalization of the industrial supply chain, JDI has created an asset-light model that not only facilitates the rapid scaling of its business but also enhances its advantage in efficient inventory management. JDI creates a unified and consistent "language system" across the entire industrial supply chain. JDI has established an end-to-end supply chain digital infrastructure and leverage our broad product offerings, superior services, and streamlined operations to address the common fundamental needs of the industry. JDI's innovative business model coupled with strong technology capabilities enable it to maintain healthy working capital as its business continues to grow.

4.3.2 Industry Products on the Platform

There are vast product assortment equips JDI with the capabilities to better meet the demand for long-tail products of key accounts, SMEs, and others, which are critical for their specific procurement needs and unplanned purchases. Industrial products on the platform can be generally divided into general-purpose MRO products, professional MRO products, and BOM products:

• General-purpose MRO products refer to MRO products designed and manufactured for use in a wide range of industries and applications. These products are typically standardized, meaning that they can be used in a variety of settings and are not customized for specific use cases. Examples of general-purpose MRO product categories include (i) safety and security, (ii) cleaning and janitorial, (iii) handling, shipping, and storage, (iv) wires and cables, (v) welding supplies, (vi) tools, and (vii) personal protective equipment.

• Professional MRO products refer to MRO products used in professional use cases or for professional purposes by trained and specialized technicians and service providers who have expertise in specific areas. Examples of professional MRO product categories include (i) chemicals, (ii) lifting equipment, (iii) instruments, (iv)

metalworking, (v) lab supplies, (vi) motors and power transmission, and (vii) mechanical equipment.

• BOM products refer to parts and materials in process which are used in an original manufacturing process to compose final products. Examples of BOM products include (i) electronic components, (ii) medium and low voltage power distribution systems, and (iii) fasteners.

Built on top of the industrial product data and market insights generated from its business operations, its data analytics and applications provide a solid foundation for processing artificial intelligence workloads. Leveraging its success in providing service experience and establishing solid reputation in the domestic market, the Company has targeted key accounts with overseas market expansion strategies.

4.3.3 Cost Reduction and Efficiency Improvement in China's Industry Supply Chain Services

Optimization for the overall supply chain. The comprehensive industrial supply chain technology and service model realizes the whole supply chain data and information penetration, leading to improvement to circulation speed, which reduce explicit and implicit costs. This model allows customers to achieve cost reduction, efficiency enhancement, and procurement transparency simultaneously. In 2024, JDI selling and marketing expenses as a percentage of the revenue is 4.1%, and the average revenue contribution per sales personnel is RMB25.0 million, both of which set the industry-leading benchmarks for sales and marketing efficiency. It also minimized and efficient management of its own inventory helped achieve inventory turnover days of 14.8 days in 2024, which represented an industry-leading inventory turnover efficiency, compared with an average of 47.6 days for the peers in China and 79.7 days for the peers overseas. In addition, cloud inventory management eliminates unnecessary product shipment caused by redundant distribution layers and streamlines the fulfillment process for our customers.

Optimization for downstream purchasing customers. Due to the digitalization of the supply chain, the time from searching for sources to placing orders for products and reduce the time from placing orders to receiving goods are both shortened. For example, JDI develops K2, which acts as the nerve center of our fulfillment digitalization, providing customers with optimal decisions throughout the entire fulfillment process, leveraging advanced data analytics and algorithms. It allows customers to plan for the receipt of orders with greater efficiency. JDI has forged strategic partnerships with major logistics service providers in China to ensure robust and efficient fulfillment as we scale up its business operations. JDI also forms strategic partnerships with major logistics service providers in China, leveraging bargaining power and industry expertise to assist customers, particularly SMEs, in obtaining more favorable pricing terms for deliveries. Moreover, its nationwide fulfillment network spans almost all cities and major industrial clusters in China through logistics service providers, which establishes a vast and extensive fulfillment network. JDI's advanced

technology infrastructure and middleware has established a robust foundation, empowering us to operate and develop with exceptional efficiency.

4.3.4 Further Expand Customer Base

There are seasonal concentration of industrial activities and Chinese industrial enterprises' general procurement pattern, as well as the industry pattern that commercial construction projects are usually launched in certain seasons, which are normally in April and May, months of construction-friendly weather. Hence, JDI experience seasonality, primarily because of seasonal fluctuations in customer procurement demands, it should more care about the customers demand and expend stable customer base.

Since most companies in China still rely on traditional offline suppliers for their sourcing needs, JDI will continue to engage potential customers to adopt end-to-end digital supply chain solutions, achieving tremendous efficiency gains. For existing KA customers, it continues to further expand their purchase share by penetrating more sourcing categories and up-selling and cross-selling more industrial technology services and solutions.

JDI platform is well-suited to satisfy the tailored needs of its customers in its digital procurement services with customized fulfillment plans. For example, a customer's order placed in our digital procurement services may involve multiple types of industrial products sourced from various suppliers located in different geographical regions. The customer, however, requires all shipments to be made to its plant site within a specified timeframe.

SMEs and others represent a large but underserved market and we have identified significant market potentials for their demand for industrial products. SMEs and others tend to make frequent, unplanned purchases. They usually have limited source of funds, procurement channels, and bargaining power, and are therefore sensitive to product prices. They also lack effective means for inventory management, partly due to unmet demand for digital services. Therefore, JDI operates an open platform for SMEs and others, where all products are listed with clear and transparent pricing, solving their problems on limited source of funds, limited procurement channels, and limited bargaining power. It allows SMEs and others to easily and quickly find and purchase long-tail products to meet their procurement needs. Leveraging JDI strong bargaining power supported by the business scale, vast product assortment, and AI-powered smart recommendations, it is able to offer SMEs and others competitively priced products with greater transparency.

With the Company's unique expansive business model, the Company recorded a strong GMV growth with a CAGR of 13.5% from 2022 to 2024, which is higher than the average growth rate of leading players in China's industrial supply chain technology and service industry for the same period.

The Company's ability to continuously expand its customer base and increase customer spending depends on its ability to further advance its digital infrastructure and better address the pain points of industrial supply chain, including expanding its product offerings and services to cover additional industry verticals, product categories, use

cases, and geographies. JDI's capabilities are strategically designed to be interoperable across diverse industry verticals, product categories, use cases, and geographies.

As more of these manufacturers, distributors and resellers join the Company and the Company provides more SKUs with standardized product parameters and specifications, the Company's customers will benefit from a massive assortment of quality industrial product offerings, which will in turn attract more customers, thereby creating a scalable, vibrant and dynamic ecosystem.

China led the global industrial supply chain market with the largest market size in 2024, and has grown rapidly in the past decades.

4.3.5 Carbon Neutral and Energy Saving

The comprehensive industrial supply chain technology and service model implemented by JDI, directly connects supplies and demands, optimize fulfillment routes, and reduce unnecessary product shipment caused by redundant distribution layers. For example, a great part of the orders on the platform are delivered directly from the supply end to the demand end, reducing around 40% of carbon emissions in shipping industrial products. In this way, it helps the industry as a whole reduce fuel consumption and transportation emissions and waste.

4.3.6 Competitive advantages

The industrial supply chain technology and service industry in China is growing rapidly with concentration rate being relatively low. For industrial supply chain technology and service providers, such as JDI, the current and potential competitors include supply chain technology and service providers and MRO procurement service providers in China. And JDI is the only supply chain technology and service provider capable of offering end-to-end integrated technology and services using a comprehensive model.

The Company is a pioneer in adopting a total solution to digitalize the industrial supply chain to address the common challenges faced by the industrial supply chain in China. The Company enjoys the broadest customer coverage in China's industrial supply chain technology and service market. The Company also enjoys the broadest customer coverage of SME and other customer segments in China's industrial supply chain technology and service market. The Company's business model is hard to replicate, as it requires extensive experience, resources, and technological capabilities to apply their total solution across industries, product categories, use cases, and geographies at scale. JDI's expansive business model has enabled us to rapidly broaden its offerings across diverse industry verticals, product categories, use cases, and geographies. Through the Company's market leadership and their proven track record of enhancing supply chain efficiency in MRO procurement services, the Company can further address the broader industrial supply chain market in China. Throughout years of development, the Company has established themself as the largest player in the MRO procurement service market in China, ranking No.1 as measured by GMV in 2024, which is nearly three times the size of the next largest player.

It anticipates that the industrial supply chain technology and service market will continuously evolve and experience rapid technological change, evolving industry

standards, shifting customer requirements, and frequent innovation. Companies need to continually innovate to remain competitive, which the principal competitive factors in the industry are:

- brand recognition and reputation;
- comprehensiveness and effectiveness of services and solutions;
- ability to provide services and solutions to increase supply chain reliability, reduce costs, enhance efficiency, and improve compliance capabilities;
- Broadness of product supplies for customers;
- product quality and assortment;
- technology and digitalization capabilities;
- fulfillment capabilities;
- customer service; and
- pricing.

For the whole industry, the possibility of a short-term significant increase in products where there are no applicable national or security standards is remote. In addition, new and enhanced technologies may increase competition in the industrial supply chain technology and service industry. New competitive business models may appear.

From industry perspective, JDI is well-positioned to effectively compete on the basis of the factors listed above. However, there are also some current or future competitors that may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases or greater financial, technical or marketing resources. Furthermore, as company continues to grow rapidly, it may face significant competition for highly skilled personnel. The success of the growth strategy depends in part on ability to retain existing personnel and attract additional highly skilled employees.

JDI has accumulated a wealth of in-depth supply chain know-how. By serving the most extensive customer base in this sector in 2024, JDI has deepened its know-how in providing tailored services to a diverse spectrum of customer base and, particularly, large enterprises with complex demands and organizational structures. In 2024, JDI served over 10,600 key accounts. With a broad presence across different industry verticals, particularly in manufacturing, energy, transportation, and other general industries, and by maintaining close working relationships with industry leaders, JDI has amassed comprehensive vertical know-how that can be modularized and applied to customers from the same verticals efficiently, as well as to swiftly explore and enter new verticals over time.

4.4 Entry Barriers to China's Industrial Supply Chain Technology and Service Market

Industry know-how. Industrial products encompass a wide range of categories and specifications. Enterprise customers across various industries have diversified

demand and pain points. With the in-depth industry know-how on industrial products and supply chain solutions, leading industrial supply chain technology and service providers can better serve customers by providing customized solutions to address their specific needs across different scenarios.

Supply chain capabilities. To provide end-to-end services, industrial supply chain technology and service providers need to develop strong supply chain capabilities to better mobilize and integrate various industry resources such as industrial product inventories, production capacities, fulfillment services and technology solutions, to ensure high-quality service and high customer satisfaction. Due to the differences between service logistics of operations in 2B market and 2C market, platforms represented by the company have obvious advantages of self-owned supply chain genes, while traditional service providers focusing on 2C market cannot effectively carry out business expansion in the industrial market.

Customer loyalty. Leading industrial supply chain technology and service providers often have a well-established customer base, especially large industrial enterprises with significant and recurring demand for industrial products, and requirements for high-standard customer services. After customer loyalty is established and continuously strengthened through customized services, other market players will face significant barriers for these customers to switch.

Technological capability. High-level technological capability is necessary in the industry to realize the digitalization of several segments along value chain, including procurement and post-procurement production and operation centered on equipment. Few services providers can establish systematic digital infrastructure for upstream suppliers and downstream enterprise customers to realize product digitalization, performance digitalization, procurement digitalization, operation and maintenance digitalization, and energy management digitalization.

Services capability. Execution process of industrial orders is relatively complex for some products must be transported and stored professionally according to their properties. Industrial digital procurement platform should establish its performance infrastructure specifically for product storage and delivery, as well as professional performance team and comprehensive post-procurement services. Additionally, services providers need to have sufficient social resources integration capabilities to serve enterprise customers.

Scale effects. A leading industrial supply chain technology and service provider that has a large customer base is well-positioned to secure high-quality industrial product supplies at competitive prices, which in turn will help it attract more customers and suppliers to its platform, thereby reinforcing its market leadership and fueling its further growth. The bilateral scale effect of the industry leaders can stimulate more demand for an increasing number of customers; thus, the platform can acquire more supplier resources, stronger bargaining power and more attractive price advantages to further acquire more customers.

4.5 Key Success Factors of China's Industrial Supply Chain Technology and Service Market

Full coverage in all industrial supply chain functional capability. Industrial supply chain technology and service providers need to provide comprehensive supply chain link services, establishing their own supply chain resources layout and dispatching social resources to provide customers with national warehousing and distribution network. They need end-to-end execution capabilities, after-sales service and professional customer service capabilities, with digital intelligence and maintenance detection, which result in synergy effects of supply chain and deepen the understanding of various industrial sub-sectors.

Strong digital and intelligent service capabilities. Participants in the industrial supply chain technology and service industry need to have strong technical and digital foundation to optimize industrial supply chain procurement (digitalization of procurement and fulfillment, etc.) and post-procurement process (digitalization of operation and maintenance, etc.), achieving better information data connection and in-depth market insight, which helps upstream suppliers and downstream customers to establish key digital infrastructure.

Industry know-how capacity. In order to effectively acquire and retain customers, industrial supply chain technology and service participants need to have an in-depth understanding of the industrial products in various industrial subsectors, developing personalized operation strategies to meet the different needs of customers, to enhance the quality of enterprise customer services.

Suitable talent. Success of industrial supply chain technology and service participants is significantly dependent upon the continued service of our key employees and senior management, as the competition for talent in China's industrial supply chain technology and service market is intense, and the availability of suitable and qualified candidates in China is limited.

5. COMPETITIVE LANDSCAPE

5.1 Competitive Landscape of the Industrial Supply Chain Technology and Service Industry in China

The industrial supply chain technology and service market is large, fragmented and evolving rapidly. The current or future competitors of the company may include companies with similar or greater market presence, name recognition, and financial, marketing, technological, and other resources. They may also have longer operated histories, a larger customer and buyer base or broader and deeper market coverage, with continuing to introduce new solutions to compete.

The Company is the largest industrial supply chain technology and service provider in China in terms of GMV in 2024, nearly three times the size of the next largest player, had the broadest customer coverage in 2024, and had the broadest SKU offerings under direct sales business model as of December 31, 2024. The Company had a market share of 4.1% in the industrial supply chain technology and service market

in terms of GMV in 2024. The concentration of this industry is relatively low, leaving significant room for further consolidation.

The Company is the only comprehensive model provider in the industrial supply chain technology and service market, while other market players only provide selected solutions covering one or just a few specific segments within the industrial supply chain.

Comparative Analysis of China's Industrial Supply Chain Technology and Service Industry Players, 2024*

Player	GMV (in RMB billions)	Market share in terms of GMV(%)	Number of SKUs(in millions)**	MRO procurement	BOM procurement	Technology services***
The Company	**~28.8**	**~ 4.1**	**~57.1**	√	√	●
Player A（ZKH）	~10.5	~ 1.5	~17.0	√	√	◕
Player B（EHSY）	~6.5	~0.9	~12.0	√	×	◑
Player C（CECport）	~3.3	~ 0.5	~55.0	×	√	◔
Player D (JLC Technology Group）	~3.2	~ 0.5	<1.0	√	√	◔

Source：CIC Report

Note:

*To present a fair and balanced description of the competitive landscape, this analysis excludes companies established by a parent holding group primarily to serve its own internal procurement needs within the holding group rather than to address market demands. Due to the nature of such intra-group transactions, the revenues of these out-of-scope companies are typically consolidated and eliminated at a group level.

**Number of SKUs refers to products sold under direct sales business model as of December 31, 2024.

***Technology services include consulting services, technology services, and operational and value-added services. The Harvey Ball is used to represent the extent of a player's coverage in technology services. The fuller the circle, the more services are provided; the emptier the circle, the fewer services are offered.

(1) Player A mainly provides MRO procurement and fullfillment services to customers, and offer digital and fulfillment solutions for participants along the industry value chain. It offers MRO products including spare parts, chemicals, manufacturing parts, general consumables, and office supplies. Player A is a listed company established in 1996 with its headquarters in Shanghai.

(2) Player B mainly sells MRO products and provides relevant technology services. It establishes a logistics center in Zhejiang and provides time-saving and more efficient delivery methods, which cooperates with a large number of state-owned enterprise customers. Player B is a private company established in 2002 with its headquarters in Shanghai.

(3) Player C mainly provides services covering electronic components distribution and product design. Player C has more than 30 years of track record in supply chain resources accumulation and technology innovation. Player C is a Shenzhen Stock Exchange-listed company established in 2014 with its headquarters in China.

(4) Player D offers full-industry chain services mainly encompassing electronic component procurement and sales and printed circuit board manufacturing. Player D provides products and services to renowned enterprises across various industries, as well as to universities and research institutions. Player D is a private company established in 2006 with its headquarters in China.

5.2 Competitive Landscape of the MRO Procurement Service Industry in China

The Company is the largest MRO procurement service provider in China in terms of GMV in 2024. The Company accounted for 0.8% of the MRO procurement service market in terms of GMV in 2024, which was approximately the sum of the market shares of the market players ranked from second to fifth. Digital MRO procurement service is still at its early stage of development. Early entrants of the digital MRO procurement service market, such as the Company, benefit from significant first-mover advantages, including strong customer loyalty, in-depth industry know-how and product knowledge and superior fulfillment networks, which are difficult to replicate for later market entrants.

China MRO Procurement Services Market Competitive Landscape, 2024*

Ranking	Player	GMV (in RMB billions)	Market Share in terms of GMV (%)	Number of SKUs (in millions)**
1	**The Company**	**~28.8**	**~ 0.8**	**~57.1**
2	Player A（ZKH）	~10.5	~ 0.3	~17.0
3	Player B（EHSY）	~6.5	~ 0.2	~12.0
4	Player E（Xinfangsheng）	~3.0	~ 0.1	~10.0
5	Player F（Deli Group）	~3.0	~ 0.1	<10.0

Source： CIC Report

Note:

*To present a fair and balanced description of the competitive landscape, this analysis excludes companies established by a parent holding group primarily to serve its own internal procurement needs within the holding group rather than to address market demands. Due to the nature of such intra-group transactions, the revenues of these out-of-scope companies are typically consolidated and eliminated at a group level.

**Number of SKUs refers to products sold under direct sales business model as of December 31, 2024.

(1) Player E sells construction materials and MRO products, which brings professional, stable and sustainable services to enterprises worldwide, with service centers, warehousing centers and logistics centers covering nearly the whole country. Player E is a private company established in 1989 with its headquarters in Beijing.

(2) Player F is a leading solution provider for multi-work and learning environments. Its product line spans 24 major categories, including office and student stationery, office equipment, and

office consumables. The company supplies MRO products primarily to numerous state-owned and central enterprises. Player F is a private company established in 1981 with its headquarters in China.

Compared to a more mature market such as the U.S., China's MRO procurement service market is still relatively fragmented. The top 10 companies in China's MRO procurement service market only accounted for approximately 1.5% market share in terms of GMV in 2024, while the top 10 companies in the U.S. MRO procurement service market accounted for approximately 30%-45% market share in 2024. The concentration rate in China is expected to increase further as the incumbent leading players solidify their established competitive advantages.

6. APPENDIX

Merger & Acquisitions. The Matthew effect of capital will cause the quick expansion of the online MRO procurement service platform as the market for online MRO procurement progressively comes to the attention of investors, resulting in mergers and acquisitions in the years to come. As to the Company, companies operating in their underpenetrated sectors can be good choices, for example, the high-end manufacturing sector and the electronic vehicle manufacturing sector, which are rapidly rising in China.

Increasing focus with respect to environmental, social and governance matters. The PRC government and public advocacy groups have been increasingly focused on environment, social and governance ("ESG") issues in recent years, making our business more sensitive to ESG issues and changes in governmental policies and laws and regulations associated with environment protection and other ESG-related matters. Investor advocacy groups, certain institutional investors, investment funds, and other influential investors are also increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments.

Insurance coverage need to be more adequate. As the insurance industry in China is still evolving, insurance companies in China currently offer limited business-related insurance products. Enterprise should expand business interruption insurance and key-man insurance, assuring that insurance coverage is sufficient to prevent company from any loss or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all.

Advertising rates and splits. As advised by CIC, Weibo and Kuaishou charges a technology fee rate of 2%-5% of orders (depending on product type), while Youzan charges technology fees of 2% for orders under RMB25 and RMB0.5 per order for orders over RMB25, and Youzan also provides assistance for its users to build stores or websites on other platforms for a technology fee of 2% to 5%. Pinduoduo charges 0.6%-5% of orders as their technology fees. Fee sharing arrangements vary, the company or platform displaying the advertisement generally receives approximately 50%-80% of the advertising revenue received from the advertiser. Alibaba Picture received 20%-50% advertisement revenue from its associated parties. Aliheath, EClickTech (a leading digital marketing agency providing effective advertising

services and marketing services), and Pingcoo (a leading omni-channel marketing company providing clients with strategies and tools to achieve sales growth), who receive 3%-15% of the total advertising payment from the third-party advertiser as their agency fees.

Risks related to health epidemics and other outbreaks. In recent years, there have been breakouts of epidemics in China and globally, such as the outbreaks of COVID-19. In early 2020, outbreaks of COVID-19 resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities and factories across China, and disturbed product logistics and delivery. These restrictions led to a decrease in demand and supply for industrial products and higher fulfillment expenses. Normal economic life throughout China was sharply curtailed. The population in most of the major cities was locked down to a greater or lesser extent at various times which had significant adverse impact on manufacturing and other industrial activities. The associated travel restrictions, quarantines, lockdowns, and other measures in various regions of China constrained the demand and supply for industrial products and disturbed logistics, which in turn adversely affected growth of companies and results of operations. As COVID-19 became gradually contained and business activities gradually resumed in China later in 2020 and 2021, market demand and supply for industrial products gradually recovered. China began to modify its zero-COVID policy at the end of 2022, and most of the travel restrictions and quarantine requirements were lifted in December 2022. There were surges of cases in many cities during this time which caused disruption to our and our suppliers' operations, and there remains uncertainty as to the future impact of the virus, especially in light of this change in policy.

Telecommunication and internet infrastructure in China. The industrial supply chain providers depend on the performance, reliability and security of the telecommunications and internet infrastructure in China. Substantially all of our computer hardware and cloud computing services are currently located in China. Access to internet in China is maintained through telecommunications carriers under administrative regulation and supervision according to relevant laws and regulations, and the Company obtains access to end-user networks operated by such telecommunications carriers to give customers access to their systems.

China's economic, political or social conditions or government policies could have a material and adverse effect on business and operations. The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of

foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies. While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments.

Global effect. In addition, the global macroeconomic environment is facing challenges. For example, the COVID-19 pandemic has caused significant downward pressure for the global economy. Furthermore, the conflicts in Ukraine and the imposition of broad economic sanctions on Russia, the potential end of quantitative easing, inflation risk and the related interest rate increase, and reduction in bond holdings by the U.S. Federal Reserve in 2022 impose new challenges and uncertainties on the global economy. As the regulations regarding data privacy and cybersecurity are quickly evolving in globally, enterprises should become subject to new laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information that could affect how the store, process and share data with customers, buyers, suppliers and other third parties.