INDUSTRY OVERVIEW

This and other sections of this document contain information relating to the industry in which we operate. Certain information and statistics set forth in this section have been extracted from the Frost & Sullivan Report issued by Frost & Sullivan, an independent market research agency, which we commissioned, and from various official government publications and other publicly available publications. Information and statistics from official government sources have not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective directors, officers or representatives, and no representation is given as to their accuracy. For discussion of risks relating to our industries, see "Risk Factors – Risks Relating to Our Business and Industry."
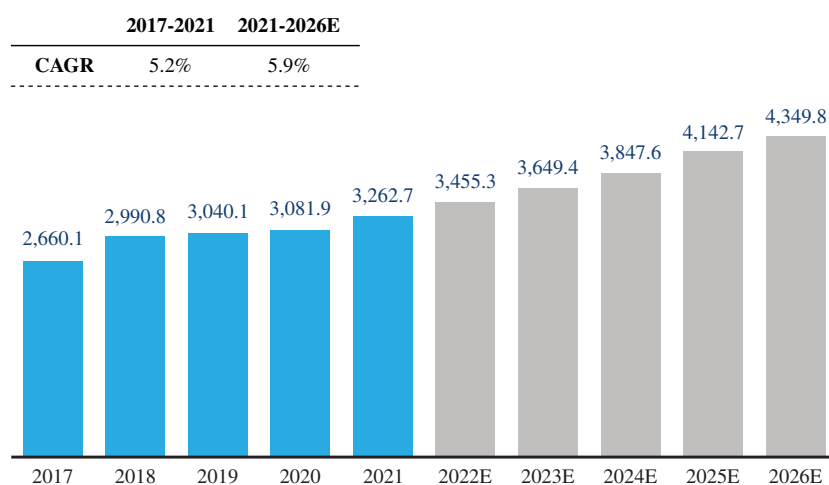
OVERVIEW OF CHINA'S ENTERPRISE IT SERVICE MARKET

Enterprise IT services refer to the comprehensive service set which enables a company to perform its business through digitalized tools and resources, including computation hardware, network set ups, application software and related maintenance services. The enterprise IT service market in China has experienced rapid growth in recent years, driven by increasing IT spending as a result of growing number of enterprises and their increased digitalization needs.

The number of enterprises in China increased significantly from 30.3 million in 2017 to 48.8 million in 2021, representing a CAGR of 12.6%, and is expected to reach 84.0 million in 2026 at a CAGR of 11.5% from 2021 to 2026. SMEs are an important part of enterprises in China and one of the main growth engines of the national economy. In 2021, the total number of SMEs in China accounted for more than 99.8% of the total number of registered enterprises in China. With a stable economic environment and government support, SMEs in China are developing rapidly. According to Frost & Sullivan, the number of SMEs in China grew from 30.3 million in 2017 to 48.8 million in 2021 at a CAGR of 12.7%, and is expected to reach 84.0 million in 2026 at a CAGR of 11.5% from 2021 to 2026.

Driven by digital transformation, enterprises IT spending in China has grown steadily. According to Frost & Sullivan, China's enterprise IT spending increased from RMB2,660.1 billion in 2017 to RMB3,262.7 billion in 2021, representing a CAGR of 5.2%, and is expected to reach RMB4,349.8 billion in 2026 at a CAGR of 5.9% from 2021 to 2026.

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China Enterprise IT Spending
RMB Billion, 2017-2026E

	2017-2021	2021-2026E
CAGR	5.2%	5.9%

2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
2,660.1	2,990.8	3,040.1	3,081.9	3,262.7	3,455.3	3,649.4	3,847.6	4,142.7	4,349.8

Source: Frost & Sullivan

Enterprises' spending on PC has long been an important part of the enterprises' IT spending, and has remained stable over time. According to Frost & Sullivan, enterprises' computers in active use increased steadily from 111.4 million in 2017 to 117.0 million in 2021, and is expected to reach 120.5 million in 2026.

ENTERPRISE OFFICE IT SERVICE INDUSTRY

Overview

From the perspective of IT service users and usage scenarios, enterprise IT service market can be further divided into the enterprise external IT service segment and enterprise office IT service segment. Enterprise external IT services refer to the services provided to enterprises to support the product and service delivery to the customers of the enterprises. The common external IT service providers include, among others, data center companies and cloud service companies. Enterprise office IT services refer to the services provided to enterprises' employees fulfilling the IT demand for the purpose of carrying out business operations, including all spending related to office software and hardware. Enterprise office IT services have a huge market with steady growth. According to Frost & Sullivan, the market size of enterprise office IT services increased from RMB146.6 billion in 2017 to RMB156.0 billion in 2021 and is expected to reach RMB213.9 billion in 2026. The main threats and challenges facing the enterprise office IT industry in China include limited service coverage, SMEs' cost burdens, and the potential cybersecurity risks involved:

- **Limited service coverage.** Traditional enterprise office IT service providers merely focus on basic IT services, such as hardware customization, maintenance and software installation while lacking the capability of delivering managed IT services, including software and system maintenance and data services, to address customers' diverse office IT needs.

- **SMEs' cost burdens.** SMEs may encounter financial difficulty with affording the cost of enterprise office IT services, including initial acquisition of equipment, operation and upgrading of system, internal maintenance, and equipment recycling.
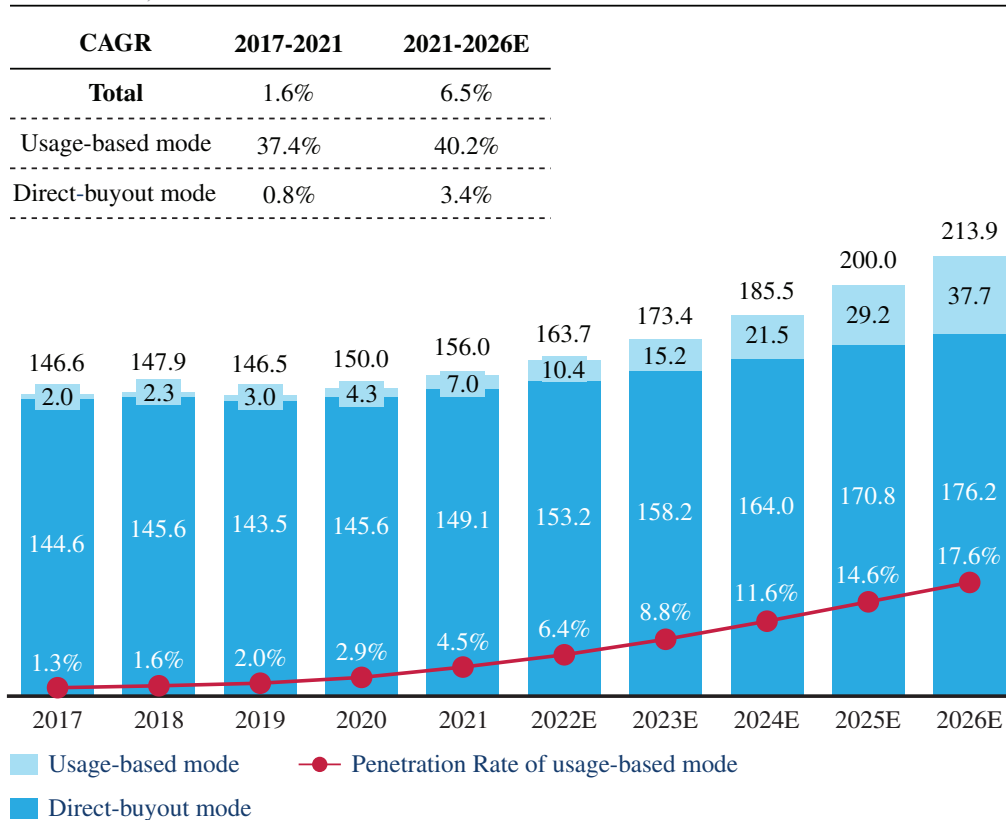
INDUSTRY OVERVIEW

• **Cybersecurity risks.** Data erasing and network security management require strong technical expertise. Compared to large PC brands that generally have established technical teams, traditional device rental companies and downstream players have much weaker research and technical support for cybersecurity risk control when recycling PCs in preparation for the next round, resulting in high risk for companies.

Other threats and challenges on China's enterprise office IT service segment also include the negative influence brought by COVID-19 and the rise of remote cloud-office mode. Due to the lasting impact and strict guidance of COVID-19, the social business growth might face more uncertainties, especially to SMEs as they have limited risk bearing capabilities. The slowed growth of enterprise could bring directly challenges to China's enterprise office IT service market, resulting in lower enterprise serviceable size and smaller budget. Also, as the remote work style become widely-accepted, cloud-office mode may decrease the dependency of enterprise-owned PCs to the employees. However, due to the solid regulations of internal cyber risk control, most companies would still insist on the enterprise-managed device only to realize the sound backstage supervision and monitoring.

Based on service delivery modes, the enterprise office IT service market can be further divided into the direct buyout mode and usage-based mode. Direct buyout mode usually refers to the direct purchase of IT devices and permanent software licensing from PC brands, software vendors and distributors. Usage-based mode usually refers to a more flexible service mode compared with the direct buyout mode. It meets the on-demand business operation needs of enterprises with a pricing based on actual usage of IT resources.

Market Size of Enterprise Office IT Service Market in China
RMB Billion, 2017-2026E

CAGR	2017-2021	2021-2026E
Total	1.6%	6.5%
Usage-based mode	37.4%	40.2%
Direct-buyout mode	0.8%	3.4%

Source: Frost & Sullivan

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In 2021, the market size of the overall enterprise office IT service industry has reached RMB156.0 billion, representing a stable growth of 1.6% from 2016 to 2021. In 2026, the overall enterprise office IT service is expected to reach RMB213.9 billion, representing a CAGR of 6.5%. The expected greater growth is due to the greater popularity of usage-based mode welcomed by the SMEs, and greater business confidence in the post COVID-19's time.

The direct-buyout mode represents the vast majority of China's enterprise office IT service. As a result, PC brands are expected to maintain their positions as leading players in the overall enterprise office IT services market. The top five players in 2021 are Lenovo Group Limited, Dell Technologies INC., HP INC., ASUSTek Computer Inc., and Acer INC, representing at least 70% market shares in aggregate in China's overall enterprise office IT services market, according to Frost & Sullivan.

Traditionally, enterprises, especially SMEs, in China mainly obtain office IT services by adopting the direct buyout service mode, which had several long-standing pain points in the industry.

- **Limited IT operating capability:** Under the traditional office IT direct buyout mode, enterprises bear the burden of their office IT operations, which distracts them from their core business growth. With limited in-house office IT support and resources, it is challenging for SMEs to manage and maintain their office IT efficiently. In line with the digital transformation process, enterprises' needs in office IT services evolve as they often lack enough in-house technicians with sufficient expertise to handle the increasingly complicated operational and maintenance requests arising under various business scenarios in a timely manner. For example, it could be unduly burdensome for enterprises to provide their employees with 24/7 on-site or remote technical support across different locations.

- **Lack of external technical support:** Faced with the challenges brought by increasingly complex office IT infrastructure and limited IT operating capability, enterprises turn to external service providers for technical support. However, under the direct buyout mode, PC brands and distributors generally only provide limited after-sales services for sold devices, such as hardware customization, maintenance, and software installation upon customers' requests, instead of ongoing IT operation services as their business focus is to promote sales of new devices. As a result, under the direct buyout mode, the external technical support cannot fully meet the needs of enterprises for comprehensive IT services.

- **Hidden costs and inconsistent service quality:** Customers who lack professional guidance and expertise are at higher risks of incurring hidden costs and/or inconsistent service quality during the process of seeking stable office solutions. In the absence of one-stop comprehensive services that guarantee the service level, customers have to engage different service providers in each step of services, such as device procurement, IT inspections, set-up, back-up, upgrades and device recycling. This process can be lengthy and complex, resulting in increasing difficulty for SMEs with needs for budgetary control.
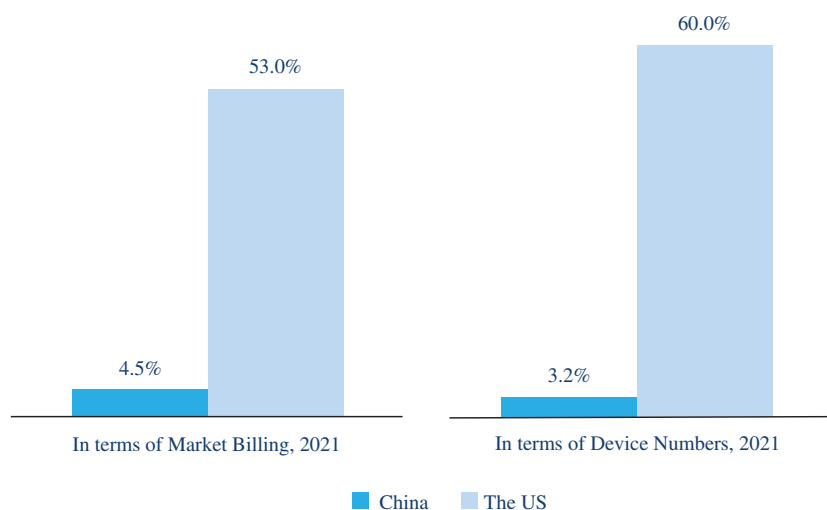
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- **Device redundancy:** Fast-growing SMEs typically require flexibility in office IT devices and services, as their business, scale and staffing headcount are subject to frequent adjustment. Due to the inflexibility of the traditional office IT direct buyout mode, SMEs have to purchase a certain number of additional devices to prepare for potential seasonal peak demand and serve as alternatives in case of device malfunction, which inevitably leads to a large number of devices lying idle. In addition, using the traditional office IT direct buyout mode, it is challenging for SMEs to dispose of obsolete devices and replace or upgrade used devices in a commercially favorable and efficient manner.

Since the usage-based mode has helped SMEs to address the aforementioned pain points, it has gradually become a popular solution favored by increasing numbers of enterprises, especially SMEs, in China. According to Frost & Sullivan, despite the impact of the COVID-19 pandemic, the number of SMEs in China has grown from 44 million in 2020 to 49 million in 2021. The office IT services market in China is expected to further expand, with the number of SMEs increasing to approximately 80 million in 2026, presenting even greater business opportunities. In addition, with the trend of digitalized business operation and remote working, most companies, including SMEs, are assigning computers to their staff for internal communication and external business needs. Fexible, usage-based office IT solutions, with their flexible payments and IT services covering all major stages of the use of devices, are appealing to SMEs that typically have limited business size and office IT operating capabilities.

As illustrated in the chart below, the usage-based office IT market in China is still in an early stage of development compared to that in the United States. According to Frost & Sullivan, in 2021, the market size of the usage-based segment accounted for only 4.5% of China's enterprise office IT service market in terms of revenue, which was significantly lower than that of 53.0% in the U.S. market. In 2021, the usage-based office IT market had a penetration rate of 3.2% in terms of the number of devices, significantly lower than that of 60.0% in the U.S. market.

Market Share of Usage-based segment in Enterprise Office IT Service Market, China and the U.S.
%, 2021

Source: Frost & Sullivan

INDUSTRY OVERVIEW

The comparatively low market share and market penetration rate indicate enormous growth potential for the usage-based office IT market. According to Frost & Sullivan, the usage-based office IT market increased from RMB2.0 billion in 2017 to RMB7.0 billion in 2021, at a CAGR of 37.4%, and is expected to reach RMB37.7 billion in 2026 with a CAGR of 40.2% from 2021 to 2026. The usage-based office IT market is expected to be the fastest growing market segment of the enterprise office IT service industry, according to Frost & Sullivan.

USAGE-BASED OFFICE IT MARKET IN CHINA

Overview

Based on availability of managed IT services, the usage-based office IT market can be further divided into device rental service segment and office IT integrated solution segment.

- **Device rental service:** Enterprises make regular payments to the IT devices rental companies to acquire the right to use the devices. IT devices rental companies provide IT devices and offer basic maintenance leveraging third-party service capability.

- **Office IT integrated solution:** By subscribing to office IT integrated solutions, enterprises receive both office IT devices and managed IT services from service providers. The subscription pack usually includes (a) IT devices installed with systems and software, and (b) managed IT services including device configuration, device/engineer deployment, operation and maintenance support, performance optimization, and device management services. This type of service is enabled by service providers' comprehensive front-end technical supports under the managed IT service model empowering enterprise customers' office IT operations, remanufacturing technology extending devices' service life, and digitalized back-end operation architecture empowering service providers' overall operation. The subscription method for office IT integrated solutions was primarily offered by market players in the usage-based office IT market and has been increasingly employed commercially since 2016.

Although the device rental service has solved the problem of large fixed-asset expenses, it generally lacks the ability to fundamentally meet the needs of enterprises for productivity and efficiency of office IT operations. With the enterprise employees' expectation of internal IT support gradually shifting from the basic break/fix tasks to productivity-oriented services, employees who encounter office IT problems during daily operations often need technicians to provide efficient services within a short response time. However, according to Frost & Sullivan, traditional device rental service providers typically offer a very limited scope of services including office IT device rental and software pre-installment, as well as basic maintenance for their leased hardware devices by engaging third parties, such as PC brands after-sales service network. Meanwhile, traditional device rental service providers are generally unable to carry out software and system maintenance services or data services for the use of IT devices, thus are facing challenges to meet enterprises' growing needs for technical and operational support.
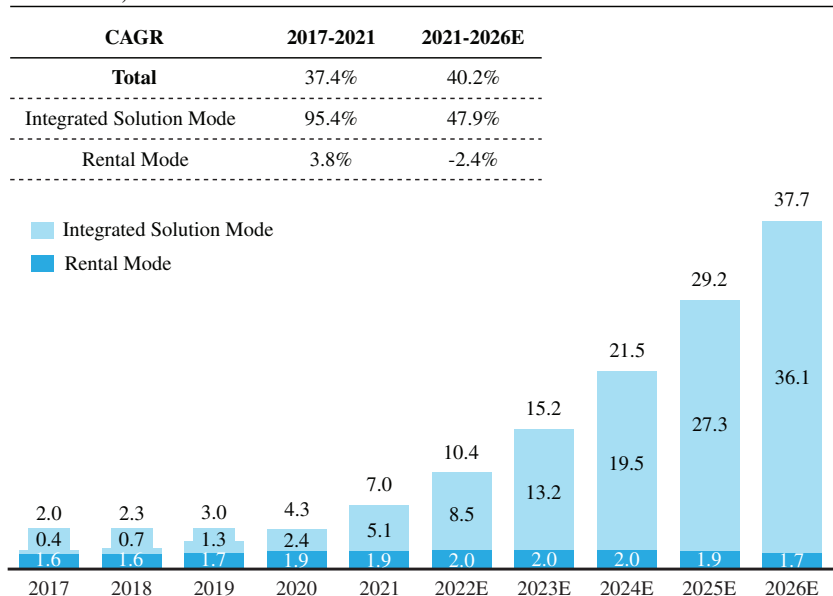
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In contrast, the office IT integrated solution providers offer one-stop, stable and flexible office IT services related to the use of IT devices, which meet customers' diverse needs of office IT for agility and flexibility in their business operations. In addition to the service scope of traditional device rental service providers, office IT integrated solution providers offer comprehensive managed IT services to meet the customer's expected service level, covering both hardware and software systems. A typical service pack comprises device configuration, device/engineer deployment, operation and maintenance support, performance optimization, and device management services, addressing customers' needs through all stages of the use of the devices. As a single point of contact for all enterprises' IT needs, office IT integrated solution providers save enterprises the trouble of engaging with multiple office IT suppliers.

The growth of the device rental service segment is expected to grind to a near halt while the office IT integrated solution segment will serve as an important growth engine for the usage-based office IT market. According to Frost & Sullivan, the market size of the office IT integrated solution segment increased from RMB0.4 billion in 2017 to RMB5.1 billion in 2021, representing a CAGR of 95.4%, and is expected to reach RMB36.1 billion in 2026 at a CAGR of 47.9% from 2021 to 2026.

The following chart illustrates the historical and expected market size of the device rental service segment and the office IT integrated solution segment as measured by revenue:

Market Size of Enterprise Office IT Service under Usage-based Model
RMB Billion, 2017-2026E

CAGR	2017-2021	2021-2026E
Total	37.4%	40.2%
Integrated Solution Mode	95.4%	47.9%
Rental Mode	3.8%	-2.4%

Source: Frost & Sullivan

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Growth Drivers of China's Office IT Integrated Solution Market

- *The increase in the number of SMEs in China and the rising demand for digitalization drive further increase in IT spending.* With a stable economic environment and government support, SMEs in China are developing rapidly. According to Frost & Sullivan, the number of SMEs in China grew from 30.3 million in 2017 to 48.8 million in 2021 at a CAGR of 12.7%, and is expected to reach 84.0 million in 2026 at a CAGR of 11.5% from 2021 to 2026. Under the trend of digital transformation, SMEs are looking to remain competitive and propel growth with technology. Therefore, as SMEs become more sophisticated in office IT, their demand for one-stop integrated IT services is also growing. The increase in the number of SMEs in China and their rising IT demand in the course of digital transformation drive further increase in IT spending.

- *Demand for high-quality service offerings.* As enterprises look to digitally transform, they have moved beyond the stage of development where they only seek to satisfy their basic needs for office IT devices, and have begun to pursue more advanced and sophisticated office IT technologies. In addition, enterprises' demands for office IT are becoming more service oriented. Enterprises favor service providers with the capability to provide one-stop solutions for their diverse office IT needs. Consequently, the pay-as-you-go office IT integrated solution has become increasingly popular among enterprises since it effectively solves the long-standing pain points created by the traditional service providers focusing on selling devices.

- *Service providers committed to delivering outstanding customer experience through office IT integrated solutions.* In the digital era, enterprises are more informed than ever and each stage of their engagement with a service provider affects their perception of the business and future purchases. Therefore, IT service providers attach more importance on customer experience. Office IT integrated solutions bring better customer experience and promote customer loyalty with its one-stop, stable and flexible service offerings. Companies with strong back-end operation architecture and proprietary remanufacturing capability are better positioned to deliver office IT integrated solutions, and thus have the potential to dominate the market.

- *Sustainable growth driven by remanufacturing technology*. Office IT integrated solution providers normally have remanufacturing capability to enhance the utilization of devices by extending their service life. With a prolonged life span, the devices last longer in the circulation process and thus can be utilized to support more customers' subscription cycles, which not only allows office IT integrated solution providers to increase profitability with lowered device depreciation costs but also reduces electronic waste and realizes carbon reduction.
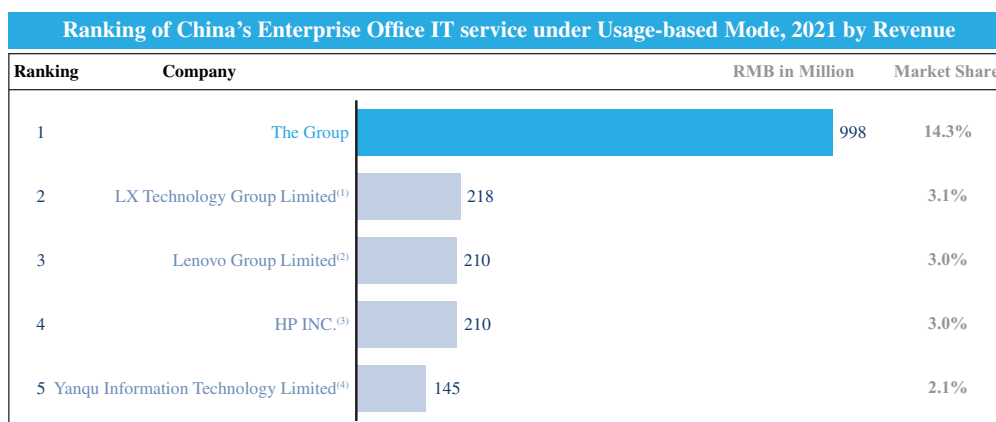
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Entry Barriers

- ***The know-how accumulated through substantial industry experience.*** Because of the long and complex value chain in the office IT integrated solution industry, it is onerous and time-consuming for new entrants to accumulate know-how, identify and gain insights into the critical elements of business operations. For example, in order to develop a competitive advantage, new entrants must have high-quality customer-oriented services and back-end technical support, rich experience in large-scale device operations to improve efficiency and expertise in remanufacturing technology, such as chip-level repair capability. It is challenging for new entrants to compete with market leaders who have accumulated know-how along the whole value chain.

- ***Nationwide service capability.*** With the industry-wide shift in customer expectation from the basic break/fix tasks to employee productivity-oriented services, enterprises have an increasing requirement for office IT operation, which necessitates a large and efficient team of engineers with relevant expertise. Without an efficient internal operational architecture consisting of purpose-built systems to recruit, train, dispatch engineers and implement quality control procedures to track their service performance, it is challenging for new entrants to develop nationwide service capability to provide high-quality customer service timely and efficiently. Therefore, new entrants may have difficulties in gaining a competitive advantage in this industry as it is hard to scale service business in the short term.

- ***Strong remanufacturing capability.*** Remanufacturing capability is essential for office IT integrated solution providers to achieve profit growth and provide affordable services to enterprise customers. Strong remanufacturing capability requires expertise accumulated from years of experience in diagnosing, repairing, implementing quality control and delivering. Therefore, it is challenging for new entrants to maintain scalability, profitability and optimal service level without strong remanufacturing capability.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE

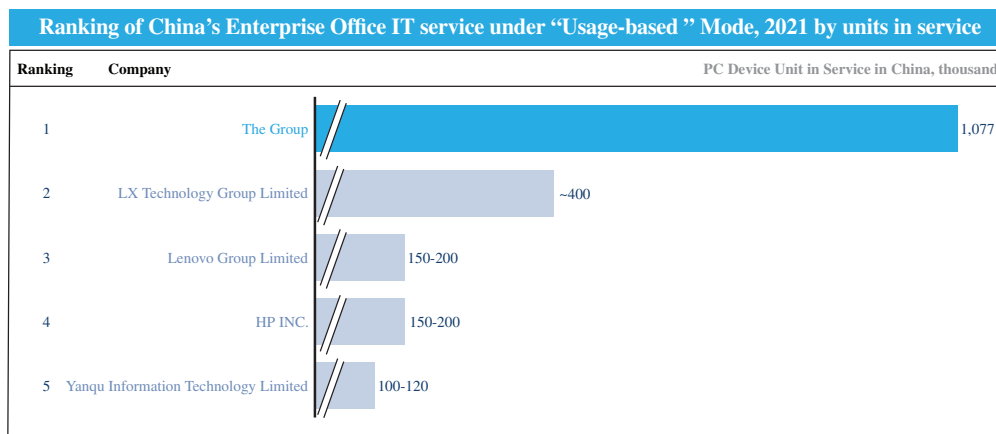### China's Usage-based Office IT Service Industry

According to Frost & Sullivan, the size of the usage-based office IT service industry in China in terms of revenue in RMB7.0 billion in 2021. The top five players in the usage-based office IT service industry in China accounted for an aggregate market share of 25.4%. According to the same source, in 2021, our Group ranked first in the usage-based office IT industry in China in terms of revenue, number of devices under service, and remanufacturing capacity, respectively.

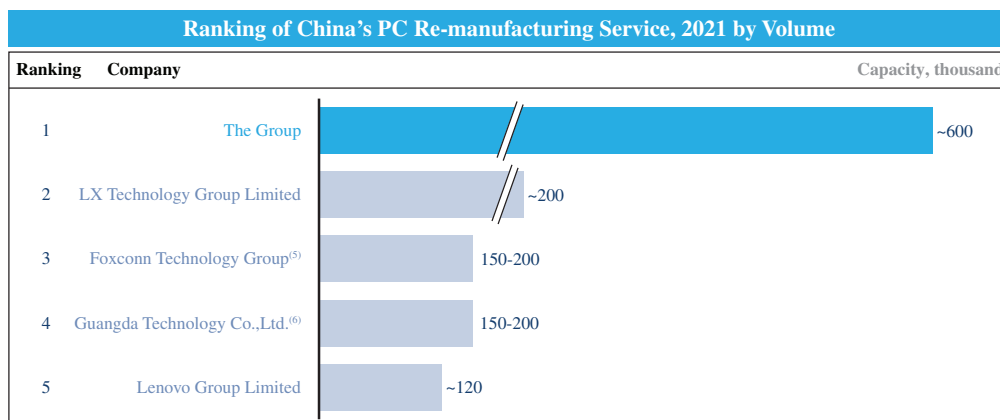| Ranking of China's Enterprise Office IT service under Usage-based Mode, 2021 by Revenue			
Ranking	Company	RMB in Million	Market Share
1	The Group	998	14.3%
2	LX Technology Group Limited[1]	218	3.1%
3	Lenovo Group Limited[2]	210	3.0%
4	HP INC.[3]	210	3.0%
5	Yanqu Information Technology Limited[4]	145	2.1%

Source: Frost & Sullivan

Notes:

(1) An enterprise office IT equipment operator with solutions covering IT device rental, IT technical services and IT equipment recycling.

(2) A global company offering smart devices, including PCs, tablets and smart wearables, listed on the Hong Kong Stock Exchange.

(3) A global company offering PCs, imaging and printing products, and other related technologies, services and solutions, listed on the New York Stock Exchange.

(4) An internet devices rental platform offering solutions that cover scenarios such as enterprise office IT, digital technology and home appliances.

Ranking of China's Enterprise Office IT service under "Usage-based" Mode, 2021 by units in service		
Ranking	Company	PC Device Unit in Service in China, thousand
1	The Group	1,077
2	LX Technology Group Limited	~400
3	Lenovo Group Limited	150-200
4	HP INC.	150-200
5	Yanqu Information Technology Limited	100-120

Source: Frost & Sullivan

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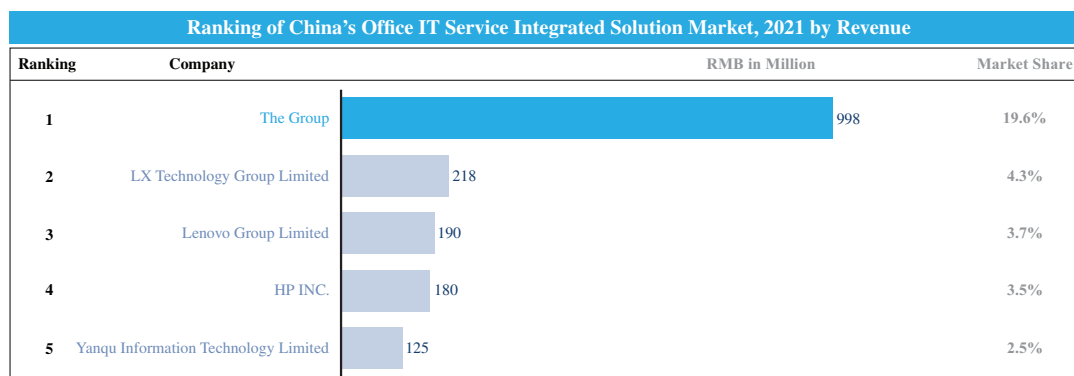| Ranking of China's PC Re-manufacturing Service, 2021 by Volume		
Ranking	Company	Capacity, thousand
1	The Group	~600
2	LX Technology Group Limited	~200
3	Foxconn Technology Group[5]	150-200
4	Guangda Technology Co.,Ltd.[6]	150-200
5	Lenovo Group Limited	~120

Source: Frost & Sullivan

Notes:

(5) An electronics manufacturer and technological solution provider in fields such as PC, cloud computing, mobile devices and IoT, listed on the Hong Kong Stock Exchange.

(6) A PC design and manufacturing provider listed on the Taiwan Stock Exchange.

China's Office IT Integrated Solution Industry

According to Frost & Sullivan, the size of the office IT integrated solution industry in China in terms of revenue in 2021 was RMB5.1 billion. The top five players in the office IT integrated solution industry in China accounted for an aggregate market share of 33.6%. According to the same source, in 2021, our Group ranked first in the office IT integrated solution industry in China in terms of revenue.

Ranking of China's Office IT Service Integrated Solution Market, 2021 by Revenue			
Ranking	Company	RMB in Million	Market Share
1	The Group	998	19.6%
2	LX Technology Group Limited	218	4.3%
3	Lenovo Group Limited	190	3.7%
4	HP INC.	180	3.5%
5	Yanqu Information Technology Limited	125	2.5%

Source: Frost & Sullivan

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SOURCES OF INFORMATION

In connection with the [**REDACTED**], we have engaged Frost & Sullivan, an independent market research consulting firm, to conduct a detailed analysis and prepare an industry report on the market in China for (i) enterprise IT service, (ii) enterprise office IT service and (iii) office IT integrated solution. Frost & Sullivan is an independent global consulting firm founded in the United States in 1961. It is principally engaged in the provision of market research consultancy services, conducting industry research, and providing market and enterprise strategies and consultancy services across various industries. We incurred a total of US$157,800 in fees and expenses in connection with the preparation of the Frost & Sullivan Report. The payment of such amount was not contingent on our successful [**REDACTED**] or on the results of the Frost & Sullivan Report. Except for the Frost & Sullivan Report, we did not commission any other industry report in connection with the [**REDACTED**].

We have extracted certain information from the Frost & Sullivan Report in this section and elsewhere in this document to provide a comprehensive presentation of the markets in which we operate. We believe such information facilitates an understanding of such markets for potential investors. Our Directors confirm that, after taking reasonable care, there is no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an adverse impact on such information. For the avoidance of doubt, impacts of the COVID-19 outbreak have been taken into account when compiling information in the Frost & Sullivan Report.

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the target research markets. Primary research involved interviewing industry insiders such as leading market players, suppliers, customers and recognized third-party industry associations. Secondary research involved reviewing company reports, independent research reports, and data based on Frost & Sullivan's own research database. Frost & Sullivan has independently verified the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan's research may be affected by the accuracy of assumptions used and the choice of primary and secondary sources.