Supply Chain Finance in China

Fintech Drives Growth
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- Challenges in SCF in China
- Fintech drives growth
- How we do it
Challenges in SCF in China
Global average DSOs up, payment lengthening

- China has highest average DSOs in 2017
- The average DSO increased by +2 days in 2017 to 66 days.

Sources Bloomberg, Euler Hermes, Allianz Research
SMEs are facing difficulties in getting financing.

**Financial Institution services focus on Big Corporate Clients**

- **Large Corporates**: Ample Coverage by Banks/Financial institutions
  - 290K
  - Large Corps: 42% State Owned - Corporates with higher credit quality
  - With stable operations and collaterals, easier for financial institutions to cover

- **Mid-sized Corps**: Sufficient financial coverage
  - 4.64 million

- **Significant number of Micro businesses not yet covered by Financial Institutions**
  - 36 million companies + 50 million individually run businesses

**Micro-businesses with limited coverage**

- Only 10% Micro businesses receive financing from Financial Institutions

Majority of their financing is covered through Private Lending

Source: SAIC, PBOC, 《2017-2022年中国企业经营项目行业市场深度调研及投资战略研究分析报告》

Source: 1《SME Development Report 2016》
Traditional FIs are incapable of filling the gap in SME financing

All these inherent issues of SMEs result in lower efficiency and hence higher operating costs for the Financial Institutions in serving them.
Failure of traditional Bank’s credit underwriting model

Traditional Financial Institutions

Credit assessment criteria

Traditional Parameters
- Balance Sheet
- Income Statement
- Cashflow Statement

New Parameters
- Water Meter
- Electricity Meter
- Gas Meter

Problems & Concerns
- Incomprehensive
- Incomplete
- Inaccurate/Falsified Information

Historical Behavior

Future Behavior


Challenges in SCF in China

- Long lead time in sales and implementation
- High Operational Cost from paper and manual process
- IT investment
- Suppliers in multi-locations
- Data un-transparency
- Return on Capital
Fintech drives growth
Early Payment Solutions require a Fintech SCF Platform

• Supplier require early payment while buyer want to pay late. This dilemma will exist forever.
• An efficient Fintech SCF platform will likely solve this.
Fintech development trends in China

Development in Mobile Payment, Big Data, and Blockchain helps SME Finance a possible mission

There are 890 million domestic mobile payment users, and roughly 92% of them are Tenpay users.

<table>
<thead>
<tr>
<th>Mobile Payment Users</th>
<th>16-59 years old</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.91 billion (8.32%)</td>
<td></td>
</tr>
</tbody>
</table>

Blockchain steadily above 30K, consistently higher than AI.

Baidu Search Trend Index: Blockchain steadily above 30K, consistently higher than AI.

WeChat has become a premium one-stop online payment service provider for the Mobile Internet.

(Usage Rate is at 25% of all Mobile Usage, Average Usage per Person at 91 minutes/day)

18Q1 WeChat Monthly Active Users at 1.04 Billion

Blockchain Platform for Supply Chain Finance

Social Media Big Data

WeChat Monthly Active Users at 1.04 Billion
Fintech Example

On-line shopping
- Discount Vouchers
- Positions
- Auto Scan
- Shopping List
- Social Media
- Loyalty Program
- WeChat Pay

Ticketing, car hiring service, online shopping, charity payments, etc.
BI analysis based on people traffic
How we do it?
Company Profile

Established: June 2016
Series A Financing: June 2017
Series B Financing: December 2017
Launched ABS deals: September 2018
ABS deals Total Issuance of RMB 5 billion+: October 2018
ABS deals RMB 30 billion+: Series C Financing USD 220 million raised
Tencent and Linklogis – Joining forces to build Fintech SCF Platform

Fintech Capabilities: The “Seven Weapons” for Building the “Digital Fortress”
Our model - open supply chain finance ("SCF") platform

- **Provide Funds**
  - Asset-backed Securities
  - Bank/Trust/Fund/Broker
  - Internet financial platform
  - Industry funds

- **Platform Enabling**
  - Financial Leasing
  - Factoring
  - Micro-financing
  - Other services: Underlying Technologies and Services
    - Innovation Fintech
    - Operations
    - Risk Control
    - Funds
    - Assets

- **Credit Transmission**
  - Bank
  - Others
  - Anchors
    - Manufacturing
    - Construction
    - Real Estate
    - Auto
    - Catering
    - New Retail
    - Pharmaceutical
    - Others

- **Service SMEs**
  - Cross-border Transactions
  - Smart Logistics
  - Insurance Services
  - Cross-border Transactions
  - IoT
  - Big Data Analysis
  - Blockchain Technical Framework
  - Payment Services
  - FinCloud Framework
Business Model - Product matrix through entire supply chain

Example: Real Estate company as Anchor

Tyre Distributor → Logistics Company → Steel Plant → Construction company → Real estate development enterprise

Product Matrix

- **Anchor→ S1**
  - Anchor credit-driven
  - **SCF Asset Service**
  - SCF service with anchor’s confirmation

- **Anchor→ Sn**
  - Multi-tier Anchor credit-driven
  - **“Weq” Chain**
  - SCF service with anchor’s confirmation based on blockchain technology

- **Anchor’s upstream and downstream**
  - Data-driven
  - **“Bee” Receivable**
  - Receivable service with big-data technology

- **ABS**
- **Re-factoring**
- **Beneficiary Trust Transfer**

Serving upstream and downstream SMEs in a supply chain ecosystem

Provide asset management services for financial institutions with diversified assets
... to Industrial chain

Traditional Supply Chain Finance: “1+N”
… to Eco-system
Strong credit driven model - Block Chain

The credit standing of the Core Enterprise can be “transmitted” along each supply chain participants, thus enabling the transfer of debt, factoring and payment on maturity.

1. Core Enterprises
   - Accounts Payables
   - Recording of Accounts Payables & Payment Guarantee
   - Collect and verify Accounts Payables
   - ABS Floor Exchange

2. First tier Supplier
   - Debt Transfer
   - Split and Transfer of Electronic Debt Certificate
   - Generate Electronic Debt Certificate
   - Blockchain Encrypted Debt Ledger
   - Bridge financing provider
   - Payment Within Seconds

3. Second tier Supplier
   - Debt Transfer
   - Split and Transfer of Electronic Debt Certificate
   - Debt Certificate Transfer Registration
   - Bank, Financial Institutions, etc.

4. Nth tier Supplier
   - Debt Transfer
   - Debt Certificate Transfer Registration
   - Bank, Financial Institutions, etc.

Factoring financial services supported by credit enhancement from core enterprises.
SCF ABS – Capital Market Funded Programs

We have served more than 60 anchors and issued RMB 182.9BN ABS in China.
The credit of an anchor is transmitted along the supply chain to the suppliers at all levels with Weq Chain digital voucher (also “Weq Voucher” )
Bee Receivables – Data Driven Receivables Solutions

Pre-Transaction

- Business Operating Data
- SME’s credit data
- Owner’s social behavior data
- SME owner’s credit data

Risk Filtering Model

Score Card

Credit Report

After Transaction

- Result runs daily/weekly/monthly
- Customized risk alert rules

Automatic Data Collection

- Intelligent Score Card
- Customized Credit Report

Customized Data Analysis

Chinese Suppliers

Data cross-validation
Evaluate an enterprise’s credit based on a combination of data including invoice, payment, tax, legal affairs, and other multi-dimensional data.
Flexible accounts receivable financing solutions cover various stages of receivables.

- Place Order
- Order Confirmation
- Goods Delivery
- Goods Received
- Settlement
- Invoice Issued
- Invoice Verification
- Payment

Financing ratio of pooled assets:
- 20%
- 30%
- 50%
- 70%
- 70%
- 70%
- 90%

Check whether the discounted value of assets can cover the risk exposure.

Credit Risk Exposure:
- Buyer's activities
- Seller's activities

Receivable financing
Repayment

Big data analysis: evaluate business operational risk

| Score | 74.00 |

### Buyer Structure
- **Score**: 74.00
- **Components**:
  - **Buyer Structure**: 10 points
  - **Stability**: 20 points
  - **Growth**: 30 points
  - **Concentration**: 10 points

### Stability (20 points)
- **Score**: 17.00
- **Components**:
  - **Stability**: 0.00
  - **Growth**: 5.00
  - **Concentration**: 0.00

### Growth (30 points)
- **Score**: 30.00
- **Components**:
  - **Growth**: 2.57
  - **Concentration**: 1.56

### Concentration (20 points)
- **Score**: 8.00
- **Components**:
  - **Concentration**: 0.00

### Table: Evaluation Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Score</th>
<th>Actual Value</th>
<th>Score/Max Score</th>
<th>Score Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buyer Structure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stability</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Growth</td>
<td>3.66</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Concentration</td>
<td>1.56</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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</table>

- **Score**: 74.00
The outcome

I finance SCF anytime and anywhere!

FI continue focusing on the core business while we help:

1. Enable a better IT platform.
3. Improved supplier onboarding and user experience.
4. Operational excellence.

Instant access to financing for SMEs.

Block chain Platform for SCF
Online receivables financing just as easy as online shopping

**Online Shopping**
- Responsive: 24X7 order placement and query
- Quick: Fast order fulfillment
- Visible: Track all stages from order placement to delivery
- Flexible: Selections of quantity, delivery mode and etc

**Online receivable financing**
- 24X7 application, loan issuance and repayment
- Get a loan in 2-hour
- Visible in all stages from application to loan issuance
- Choices of amount, no. of payments, early payment etc

**Technologies**
- Smart monitoring
- Automatic approval
- Face recognition
- E-Sign
- Credit rating model
- H5/Mini program
- Data warehouse
- Web crawler

![Image of online receivables financing process](image-url)
### Industries we have financed

<table>
<thead>
<tr>
<th>Supermarket</th>
<th>CVS</th>
<th>Restaurant</th>
<th>Healthcare</th>
<th>Automotive</th>
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</thead>
<tbody>
<tr>
<td><img src="image1" alt="Supermarket Logos" /></td>
<td><img src="image2" alt="CVS Logos" /></td>
<td><img src="image3" alt="Restaurant Logos" /></td>
<td><img src="image4" alt="Healthcare Logos" /></td>
<td><img src="image5" alt="Automotive Logos" /></td>
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<tr>
<th>Appliance</th>
<th>Communications</th>
<th>Logistics</th>
<th>New Retailing</th>
<th>FMCG</th>
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<td><img src="image7" alt="Communications Logos" /></td>
<td><img src="image8" alt="Logistics Logos" /></td>
<td><img src="image9" alt="New Retailing Logos" /></td>
<td><img src="image10" alt="FMCG Logos" /></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Cinema</th>
<th>Hotel</th>
<th>Manufacturing</th>
<th>More industries coming......</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image11" alt="Cinema Logos" /></td>
<td><img src="image12" alt="Hotel Logos" /></td>
<td><img src="image13" alt="Manufacturing Logos" /></td>
<td><img src="image14" alt="More industries Logos" /></td>
</tr>
</tbody>
</table>
Our SCF platform roadmap in China

- **Ecosystem approach with full spectrum product offering (payable + receivable + PO solution)**
- **Rely on a strong credit anchor buyers to finance the suppliers**

**4.0**

- “N x N”

**3.0**

- “N+1+N : B2B SCF Fintech Network”

**2.0**

- “1+N” : H2H to Bank

**1.0**

- “1+N” : Paper Process
Thank you

Linklogis Financial Services Co. Ltd