

Zhibao Technology Inc. – H1 FY 2024 Financial Review Highlight Strategic Initiatives and Growth Potential Amid Short-Term Challenges

Zhibao Technology Inc. (NASDAQ: ZBAO)

Share Price: \$4.00

Valuation: \$7.05



Key Statistics

52 Week Range	\$3.00 - \$5.70
Avg. Volume (3 months)	29.65K
Shares Outstanding	31.52M
Market Capitalization	\$126.10M
EV/Revenue	6.70x
Cash Balance*	\$0.78M
Analyst Coverage	1

*Cash balance as of December 2023

Revenue (in \$ mm)*

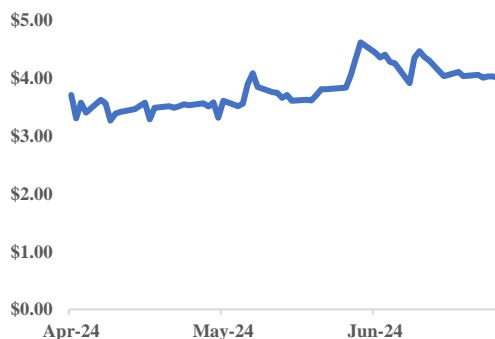
June - FY	2023A	2024E	2025E
H1	12.69	11.80	24.87
H2	6.96	11.85	16.23
FY	19.65	25.65	41.10

EPS (in \$)*

June - FY	2023A	2024E	2025E
H1	0.14	(0.04)	0.06
H2	(0.36)	0.02	0.03
FY	(0.22)	(0.02)	0.09

*Estimated Revenue and EPS Assuming 1 RMB = \$0.14

Stock Price Chart (in \$)



Investment Highlights

- Expansion Initiatives Amid Revenue Decline and Increased Operational Costs** - For the six months ended December 31, 2023, Zhibao Technology Inc. reported an approximately 8% decrease in total revenue to RMB 84.3 million from RMB 91.8 million in the same period of 2022. This decline was largely due to reduced renewals of specific accounts and the abrupt closure of business by a reinsurance partner in the high-end medical sector. Insurance brokerage and managing general underwriting (MGU) services revenues decreased by RMB 5.7 million and RMB 1.8 million, respectively. Despite these challenges, the company demonstrated growth initiatives by launching customized household insurance in seven cities and providing sports insurance coverage for over 100,000 instances across thousands of sports scenarios. The cost of revenues decreased to RMB 54.2 million, while total operating expenses increased to RMB 38.44 million. Selling and marketing expenses rose to RMB 21.0 million due to increased advertising and sales payrolls. Research and development expenses increased to RMB 7.3 million, driven by an increase in headcount. General and administrative expenses saw a modest rise to RMB 10.2 million, partly due to the adoption of new credit loss assessment standards. Consequently, Zhibao Technology reported a loss from operations of RMB 8.4 million, as the company continued to invest in strategic growth initiatives. The company ended H1 FY2024 with cash and cash equivalents of approximately RMB 5.5 million.
- Positive Operational Indicators and Industry Tailwinds** - As of December 31, 2023, Zhibao Technology Inc. achieved significant growth, reaching over 10 million end customer users and partnering with 118 insurance and reinsurance companies domestically and internationally. Zhibao Technology Inc.'s development of B Channels exhibited significant growth. By December 31, 2023, the company increased the number of B channels it works with from approximately 1,000 to nearly 1,500. These B channels span diverse market segments and are a crucial component in expanding Zhibao's 2B2C embedded digital insurance model. Despite a slight decrease in business volume and half-yearly net loss due to reduced renewals and a reinsurance partner's business closure, the company launched customized household insurance in seven cities, including major hubs like Guangzhou and Nanjing, and provided sports insurance coverage for over 100,000 instances across thousands of sports scenarios. Strengthening its high-end medical insurance market presence, Zhibao secured an agreement with PICC Property and Casualty Company Limited to provide managing general underwriting services to all PICC Group Subsidiaries. Furthermore, the "Project Amoeba" reorganization, completed in May 2024, enhanced operational efficiency by transforming mid- and back-office teams into quasi-profit centers, aligning costs with revenue, and encouraging service improvements. Actively pursuing mergers and acquisitions (M&A) since April 2024, Zhibao aims to potentially integrate companies with complementary 2B2C models to potentially create the largest insurance brokerage platform in China. The company is also poised to potentially benefit from industry tailwinds, including the rapid digitalization of insurance services and growing consumer demand for customized insurance solutions, which are expected to further accelerate growth.
- Valuation** - Zhibao Technology Inc. reported a modest financial performance in the first half of FY2024, influenced by a reduction in renewals of specific accounts and the closure of business by a key reinsurance partner. Despite these temporary challenges, management's strategic initiatives indicate strong potential for long-term growth and sustained profitability. While the immediate outlook presents certain hurdles, these efforts, combined with favorable industry tailwinds, could enable Zhibao to recover and potentially enhance its market position in the future. After updating our valuation model to reflect revised estimates and a reassessment of comparable company analysis, we reiterate our valuation of \$7.05 per share for Zhibao Technology Inc., contingent on successful execution by the company.

Company Description

Zhibao Technology Inc., through its subsidiaries, provides digital insurance brokerage services in China. It also offers managing general underwriter services; and offline insurance brokerage consulting services. The company was founded in 2015 and is operationally based in Shanghai, China.

Company Overview

Zhibao Technology Inc. is a leader in the Chinese InsurTech sector, primarily recognized for pioneering the 2B2C ("to-business-to-customer") digital embedded insurance model through its subsidiary, Zhibao China Group. Established in 2020, the company launched China's first digital insurance brokerage platform, driven by a proprietary Platform as a Service (PaaS). According to the Frost & Sullivan Report, in 2022, Zhibao China Group held a market share of approximately 17.4%, generating revenue of around RMB 140.6 million in a sector valued at RMB 807.4 million. The 2B2C digital insurance brokerage sector is experiencing rapid growth, with a historical compound annual growth rate (CAGR) of about 54.6% from 2018 to 2022, and is projected to reach RMB 6.2 billion by 2027.

Zhibao's business model integrates customized insurance solutions into the digital channels of various business entities, known as B channels, to serve their end customers, or C channels. This approach allows the company to directly address specific insurance needs, such as embedding travel insurance solutions for a travel agency's customers traveling to the U.S. directly through platforms like websites and apps. Zhibao China Group provides a range of services, including insurance brokerage and managing general underwriting (MGU) services, where it assists insurance companies in underwriting, claims, and risk control. The company designs and customizes products to fit specific industries and scenarios, supported by technology in big data and AI to continually enhance these solutions.

Zhibao Technology Inc. leads the China InsurTech sector with its pioneering 2B2C digital embedded insurance model and China's first digital insurance brokerage platform, powered by its proprietary PaaS

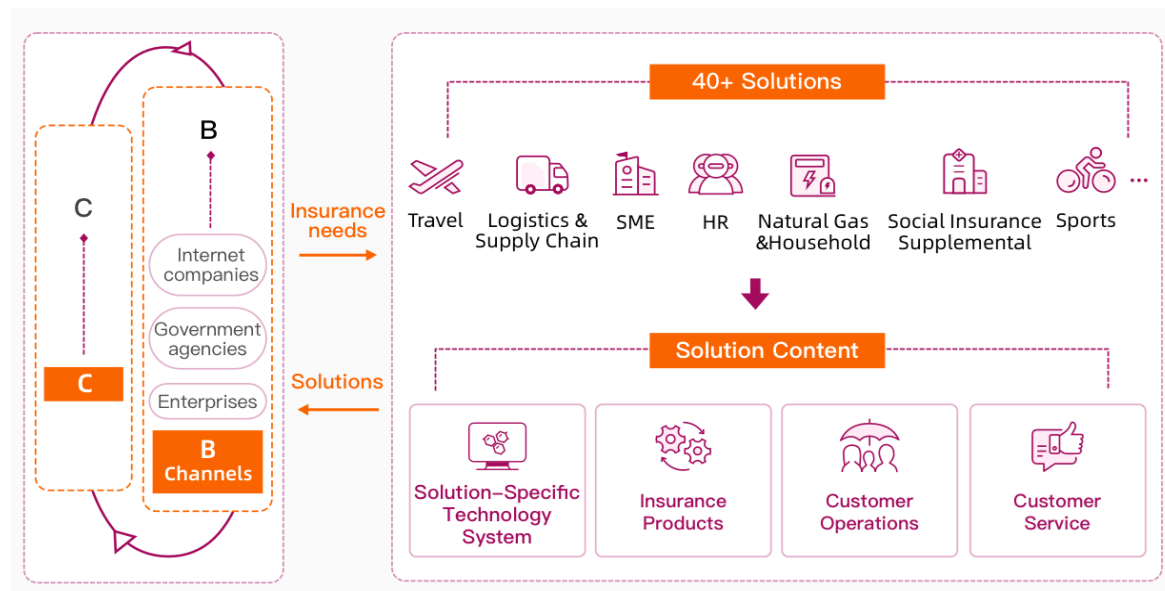


Exhibit 1: Zhibao Technology Digital Insurance Solutions. Source: Company Filings

Corporate Structure

Zhibao Technology Inc. is a Cayman Islands exempted company incorporated in January 2023 and serves as a holding company. It conducts its business in China through a network of PRC subsidiaries. The structure is optimized to support the company's operations in the insurance brokerage industry and to facilitate potential international investment.

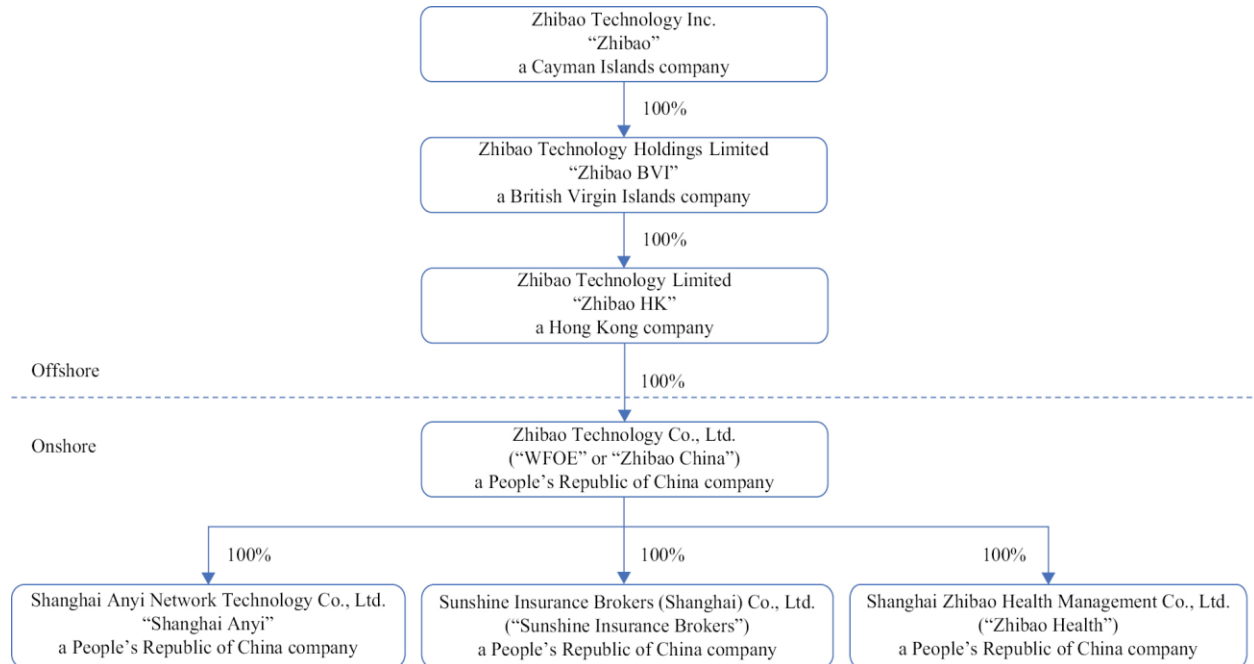


Exhibit 2: Zhibao Group Corporate Structure. Source: Company Prospectus

Zhibao China

Operating under the name Zhibao Technology Co., Ltd. ("Zhibao China" or "WFOE"), it is a wholly foreign-owned enterprise that forms the operational core of the group in China. Zhibao China, which commenced its insurance brokerage operations in 2016, has evolved from Shanghai Julai Investment Management Co., Ltd. and then Zhibao Technology (Shanghai) Co., Ltd. To adapt to its growing business and to streamline capital investment from abroad, the company underwent a reorganization, forming new offshore and onshore entities from December 2022 to March 2023.

Offshore Entities

- Zhibao BVI: Incorporated in January 2023 in the British Virgin Islands (BVI), this entity is a direct, wholly-owned subsidiary of Zhibao Technology Inc. Zhibao BVI, in turn, owns all of Zhibao HK.
- Zhibao HK: Established on January 19, 2023, under Hong Kong law, Zhibao HK holds all equity interest in Zhibao China, acting as an intermediary holding company.

Onshore Subsidiaries

- Shanghai Anyi Network Technology Co., Ltd.: Originally controlled by Shanghai Xinhui, a company linked to CEO Mr. Botao Ma, this subsidiary was transferred to Zhibao China, in 2016. Shanghai Anyi primarily provides R&D services to Sunshine Insurance Brokers and Zhibao China.

- Sunshine Insurance Brokers (Shanghai) Co., Ltd.: Starting as an independent entity, Sunshine Insurance Brokers became a wholly-owned subsidiary of Zhibao China, following a transfer of equity in 2016. The subsidiary’s primary function is offering insurance brokerage services.
- Shanghai Zhibao Health Management Co., Ltd.: Incorporated in November 2022, Zhibao Health primarily provides MGU (Managing General Underwriting) Services.

This arrangement allows for efficient management of Zhibao's diverse services, from MGU services and R&D to direct insurance brokerage, while maintaining capacity for future expansion and investment.

Leading the Way in Embedded Insurance with a Unique 2B2C Business Model

Zhibao Technology Inc. has established itself as a pioneer in the 2B2C (to-Business-to-Consumer) embedded digital insurance brokerage market in China, leveraging a unique business model that integrates seamlessly into the digital ecosystems of business channels (B channels). This model not only simplifies the insurance purchasing process for end customers but also enhances the service offerings of B channels, thereby creating a symbiotic relationship that drives growth and customer satisfaction.

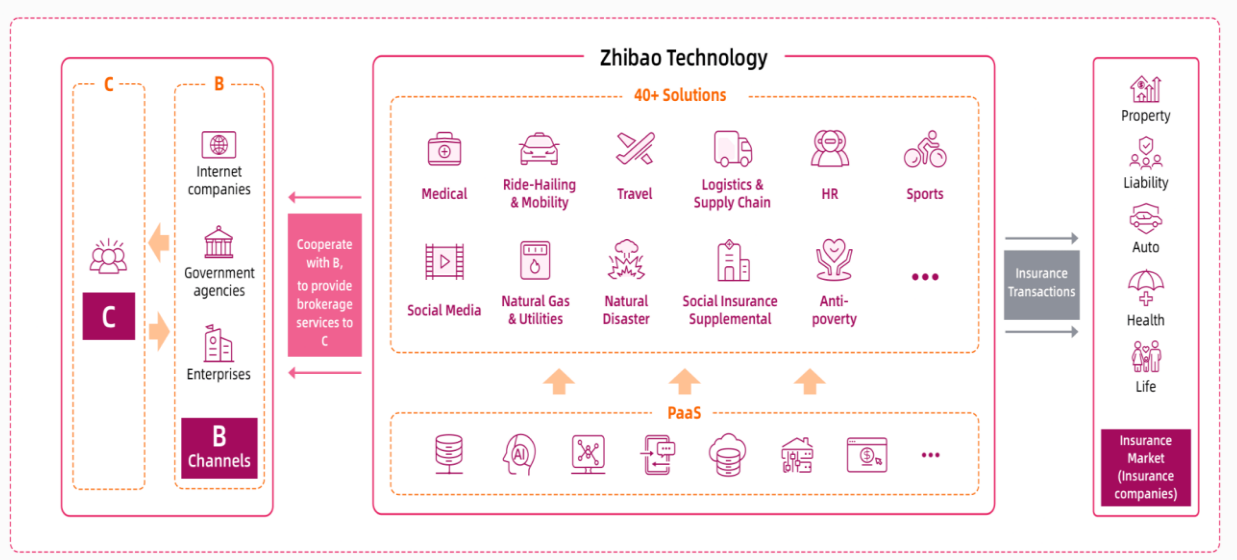


Exhibit 3: Zhibao Technology 2B2C Model. Source: Company Filings

The 2B2C (to-business-to-customer) model employed by Zhibao Technology Inc. is a hybrid business strategy that merges B2B (business-to-business) and B2C (business-to-consumer) approaches into a cohesive framework. This model is specifically designed to leverage relationships with business channels (the 'B' in 2B2C) to reach and serve the ultimate end customers (the 'C' in 2B2C). Here's a detailed breakdown of how this model functions within Zhibao Technology Inc.:

Structure of the 2B2C Model

1. Zhibao Technology Inc. (First 'B'): Zhibao acts as the central facilitator in this model, connecting insurance providers with business channels and ultimately the end customers. The company provides the technology and platform that supports the embedding of insurance solutions into the B channels' customer engagement systems. This includes the customization of insurance products, management of customer data, and the handling of transactions.
2. Business Channels (Second 'B'): These are intermediary businesses or platforms that Zhibao partners with. They can include a variety of entities such as internet platforms, government agencies, and large to medium-sized enterprises across different sectors and regions. Zhibao's digital insurance solutions are integrated into these B channels' platforms. This integration allows the insurance products to be embedded directly into the digital ecosystems that B channels operate, such as websites, apps, WeChat Mini Programs, and other social media accounts.
3. End Customers ('C'): These are the final recipients of the insurance products, typically individuals, families, or small and medium-sized enterprises (SMEs) who engage with the B channels for various services or products. Through the B channels, end customers gain access to Zhibao's insurance products seamlessly within the existing platforms they already use. This method significantly enhances the customer experience by providing tailored insurance solutions where and when they need them without the need for separate interactions.

Zhibao employs a 2B2C model, embedding its digital insurance solutions into platforms like internet and government channels, enhancing their offerings while extending its reach. This approach connects insurers with channels and delivers tailored insurance directly to end users, optimizing convenience and accessibility

The 2B2C embedded brokerage model is particularly effective because it creates a symbiotic relationship between Zhibao, B channels, and end customers. Each party benefits from the arrangement: B channels enhance their offering and potentially generate additional revenue streams, Zhibao gains access to a broad and targeted customer base without the overhead associated with traditional sales methods, and customers enjoy convenient, tailored insurance solutions integrated into their regular service platforms.

Comprehensive Insurance Brokerage Services

Insurance brokerage services form the core of Zhibao's offerings, contributing approximately 75% of its overall revenue. The company operates through its proprietary Platform as a Service (PaaS), which supports a wide range of digital insurance brokerage services. This platform was first launched in 2020 and represents a significant innovation in the market, being the first of its kind in China. The platform facilitates the embedding of customized insurance solutions directly into the digital interfaces of B channels—ranging from their websites and apps to WeChat Mini Programs and other social media platforms like Douyin, the Chinese equivalent of TikTok. Each insurance solution provided by Zhibao is carefully tailored to the specific scenario and industry of the B channel, ensuring relevance and added value to the end customers. These solutions encompass various aspects, including product design, insurer selection, technology system interconnection, and comprehensive customer service. For instance, before purchasing,

end customers must agree to a Brokerage Agreement, empowering Zhibao to act on their behalf. The insurance premiums are then collected either directly by the insurance company or through Zhibao for later settlement with the insurer, with policies issued electronically and automatically.

Strategic B Channel Partnerships

Zhibao's business model relies heavily on its B channels, which include internet platforms, government agencies, and large and medium-sized enterprises across most provinces and major cities in China such as Shanghai, Beijing, Guangzhou, and Shenzhen. As of the latest filing, Zhibao has partnered with more than 1,000 B channels. These channels integrate Zhibao’s digital insurance solutions into their customer engagement platforms, providing Zhibao with access to a vast and stable customer base. This arrangement not only reduces customer acquisition costs significantly compared to traditional brokerage services but also provides B channels with intermediary fees, which range from 30% to 50% of the insurance brokerage fees collected by Zhibao.

Zhibao's business model leverages over 1,000 B channels, including internet platforms and government agencies across major Chinese cities, to integrate its digital insurance solutions. This setup significantly reduces customer acquisition costs and provides B channels with intermediary fees of 30% to 50% of the brokerage fees Zhibao collects

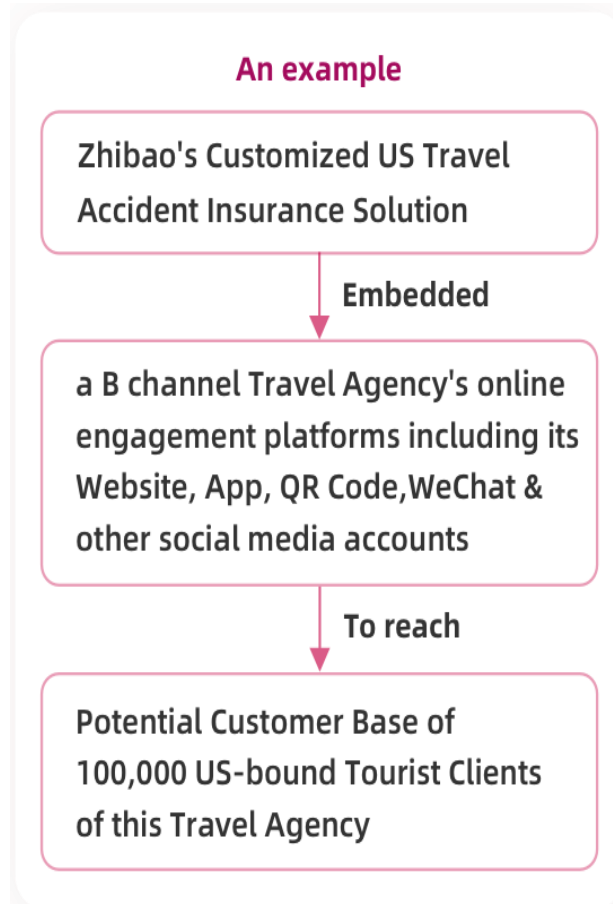


Exhibit 4: An Example of Zhibao Technology 2B2C Embedded Digital Brokerage Model. Source: Company Filings

End Customer Acquisition and Conversion

Zhibao has successfully acquired over 1 million end customers primarily through these B channels. The company's strategy involves converting these end customers into direct customers

(2C business), enhancing direct interaction, and offering tailored insurance services through multiple touchpoints, including their own WeChat Mini Program. This conversion process is pivotal for Zhibao's growth in the 2C sector, which started in mid-2022 and includes various 2C solutions tailored to the diverse needs of end customers.

Insurance Company Collaborations

Collaborating with a diverse array of insurance providers is fundamental to Zhibao Technology Inc.'s operations. Currently, the company works with over 90 insurance firms across various sectors, including property and casualty (P&C), life and pension, health insurance companies, and other specialized insurance institutions. This broad network enables Zhibao to offer an extensive range of insurance products tailored to the specific needs of its end customers. Zhibao's partnerships with these insurance companies are critical, providing the necessary support to offer comprehensive insurance solutions to the customers acquired through the B channels. Each insurance company with which Zhibao partners is rigorously selected to ensure they meet the stringent qualifications required to conduct insurance business under competent jurisdictions, thereby upholding the high standards Zhibao promises its customers.

Going forward, Zhibao plans to not only continue working with its existing insurance company partners but also to identify and secure new partners. This approach is intended to broaden the company's supply base and further cement its position as a leader in the 2B2C embedded digital insurance market in China.

MGU Services: Enhancing Insurance Operations

Managing General Underwriter (MGU) services represent a specialized sector in the insurance industry where Zhibao Technology Inc. excels, particularly in high-end medical insurance. This innovative model allows Zhibao to act as a third-party administrator (TPA), enabling it to assist insurance companies in several critical areas. These areas include product design, underwriting, reinsurance, claims settlement, risk control, and overall supplier management. The MGU services are supported by Zhibao's custom-developed system, integrated into its broader digital insurance brokerage platform.

Zhibao's MGU offerings provide comprehensive support to both domestic insurance companies and overseas reinsurance firms. For international insurers, Zhibao's services offer a strategic entry point into the Chinese market, bypassing the need for substantial local investment and operational scaling. Simultaneously, it allows Chinese insurers to access niche or specialized markets with minimal initial investment, broadening their reach and enhancing their capabilities in the competitive insurance landscape.

The demand for high-end medical insurance in China is expanding, with significant growth in gross written premium (GWP). Zhibao's strategic MGU services are well-positioned to meet this increasing demand by providing tailored solutions that align with the complex requirements of this growing market segment. Currently, Zhibao has established MGU agreements with seven

Zhibao also specializes in Managed General Underwriter (MGU) services for high-end medical insurance. Zhibao's MGU services can also help insurers to efficiently enter and expand in the Chinese market with minimal investment

insurance providers, including five domestic insurers and two international reinsurers, highlighting its pivotal role in this sector.

Diverse Channels for Marketing and Sales

Zhibao Technology Inc. employs a multifaceted approach to market and sell its digital insurance services, utilizing multiple channels:

1. B Channels

- **B channels** are integral to Zhibao's marketing strategy. They allow the company's digital brokerage solutions to be embedded within their various platforms, effectively reaching a broad end customer base. To date, Zhibao has established cooperation with over 1,000 business channels, through which it has successfully acquired more than 1 million end customers. This extensive network of B channels not only facilitates widespread customer access but also strengthens Zhibao's market presence and brand recognition across China.
- **Independent Sales Partners:** Zhibao collaborates with approximately 40 independent sales partners who play a crucial role in sourcing B channels on behalf of the company. These partners are compensated with fees ranging from 15% to 50% of the insurance brokerage fees generated through the B channels they secure. Zhibao maintains long-term agreements, typically extending for one year or more, with each of these partners. Approximately 20% of B channels are secured through this network, underscoring the significance of these partnerships in expanding Zhibao's reach and enhancing its market penetration.
- **Own Sales Team:** Zhibao also leverages its internal capabilities with a direct sales team comprising 82 full-time employees as of January 31, 2024. This team is tasked with developing new B channels and enhancing existing relationships. The sales team is based both at the company's headquarters and at various branch offices, receiving regular training to enhance their efficiency and effectiveness. Compensation for the sales team includes a fixed base salary and a commission of up to 10% of the revenue they help generate, incentivizing performance and aligning their interests with the company's growth objectives.

Zhibao Technology Inc. markets and sells its digital insurance services through multiple channels including independent sales partners, business channels (B channels), and its own dedicated sales team

2. End Customers

- **AARRR Customer Acquisition/2C Solutions:** Once B channels engage potential end customers, Zhibao implements its specialized 2C solutions, focusing on Acquisition, Activation, Retention, Referral, and Revenue (AARRR) strategies to convert and retain these individuals as direct consumers.

Comprehensive Customer Services

In addition to its robust marketing and sales operations, Zhibao places a strong emphasis on customer service to support its end customers. The company provides a spectrum of customer services, ranging from basic to value-added services:

- **Basic Customer Services:** These include day-to-day consultation, insurance policy renewal, and claims assistance, ensuring that customers receive timely support and guidance on their insurance products.
- **Value-Added Customer Services:** Zhibao offers specialized services such as health services and family insurance planning, catering to the broader and more specific needs of its customers.

Customers have multiple channels through which they can access these services, including Zhibao's WeChat Official Account, WeChat Mini Program, and a dedicated customer service hotline. For those requiring more personalized assistance, Zhibao provides the option of offline, face-to-face services.

As of the latest reporting period, Zhibao's operations team consists of 49 members, with 30 dedicated to online customer service operations and 19 focused on customer AARRR operation activities. This structured approach ensures that both potential and existing customers experience a seamless and supportive interaction with Zhibao, enhancing customer satisfaction and loyalty.

Appendix

Income Statement	FY2022 A	FY2023 A	FY2024 E	FY2025 E	FY2026 E
Net sales	108,224,804.0	142,102,834.0	183,309,714.0	297,259,044.9	399,122,696.3
Cost of sales	(61,051,878.0)	(83,485,203.0)	(113,652,022.7)	(169,437,655.6)	(219,517,483.0)
Gross profit	47,172,926.0	58,617,631.0	69,657,691.3	127,821,389.3	179,605,213.3
Operating expenses					
Selling and marketing expense	(12,728,488.0)	(22,495,891.0)	(38,953,314.2)	(40,129,971.1)	(51,885,950.5)
General and administrative expenses	(14,059,968.0)	(70,991,876.0)	(21,997,165.7)	(41,616,266.3)	(53,881,564.0)
Research and development	(7,743,121.0)	(9,682,605.0)	(14,664,777.1)	(20,808,133.1)	(25,942,975.3)
Income from Operations	12,641,349.0	(44,552,741.0)	(5,957,565.7)	25,267,018.8	47,894,723.6
Interest expense, net	(1,165,915.0)	(912,397.0)	(946,499.6)	(946,499.6)	(946,499.6)
Other income, net	673,337.0	2,907,818.0	2,437,440.7	3,952,607.3	5,307,072.4
Profit before tax from continuing operations	12,148,771.0	(42,557,320.0)	(4,466,624.5)	28,273,126.5	52,255,296.4
Income tax (expense) benefit	2,110,635.0	(541,460.0)	-	(7,068,281.6)	(13,063,824.1)
Net earnings including noncontrolling interests	14,259,406.0	(43,098,780.0)	(4,466,624.5)	21,204,844.9	39,191,472.3

Exhibit 5: Income Statement Snapshot Source: Diamond Equity Research

Risks Profile

- **Regulatory and Economic Environment Risk** - As a Cayman Islands holding company, Zhibao Technology Inc. conducts most of its operations through its PRC subsidiaries, making its financial health heavily dependent on China's regulatory and economic environment. Changes in trade policies, government regulations, and diplomatic relations, especially between China and the United States, could significantly impact the company's operations and growth.
- **Data Security and Compliance Risk** - Zhibao Technology Inc. processes significant amounts of personal and sensitive data, necessitating strict adherence to cybersecurity and data protection laws. With increased oversight from the Cyberspace Administration of China (CAC), particularly for companies aiming for foreign exchange listings like on Nasdaq, Zhibao must navigate stringent regulations. Non-compliance could negatively impact its business operations, financial condition, and Nasdaq listing application. Any data security breach could damage Zhibao's reputation, deter customers, and lead to legal liabilities.
- **Dependency on Dividends from PRC Subsidiaries** - Zhibao Technology Inc. depends on dividends from its PRC subsidiaries to meet liquidity needs, including servicing debts and paying shareholder dividends. PRC regulations mandate that dividends can only be paid from accumulated profits after reserving at least 10% annually for statutory funds until these reserves equal 50% of registered capital. Any future debts of the PRC subsidiaries could also restrict dividend payments due to debt covenants. These restrictions could significantly impact Zhibao's ability to manage its liquidity and affect its overall operations.
- **Challenges in the Emerging Digital Insurance Market** - Zhibao Technology Inc. operates in China's rapidly evolving and competitive digital insurance brokerage industry. The sector's novelty and ongoing regulatory changes add uncertainty, making it difficult to accurately predict the company's future performance. Zhibao must continuously innovate and adapt its offerings to meet shifting market demands and customer needs. However, significant changes to the company's business model may not yield the expected results and could negatively impact its financial and operational outcomes. Additionally, if the company fails to effectively communicate the value of its services or meet market expectations, its growth could be limited, adversely affecting its operations.
- **Reliance on Key Insurance Companies and Business Channels** - Zhibao Technology Inc. is heavily reliant on key insurance companies and business channels for its operations. One major insurance provider contributed significantly to Zhibao's revenues in recent fiscal years, but such contributions are not guaranteed annually due to potential shifts in industry conditions or competitive pressures. Additionally, Zhibao's business model depends on B channels to reach end customers through its integrated PaaS. Although Zhibao has established partnerships with over 1,000 business channels, securing more than 1 million end customers, the loss of these channels or failure to attract new ones could adversely impact the company's financial condition and operational performance.

- **Dependence on MGU Partner for Compliance and Operations** - Zhibao Technology Inc.'s subsidiary, Zhibao China, significantly relies on a third-party MGU Partner and its affiliates to conduct MGU (Managing General Underwriting) services. While Zhibao's MGU Partner is currently qualified to operate with the required insurance agency business permit, there are no guarantees regarding the stability of this business model or the continuous compliance with relevant PRC laws and regulations. Any failure to maintain or renew licenses, permits, and approvals, or to adhere to regulatory requirements, could adversely affect Zhibao's business operations, financial condition, and results.

- **Challenges in Scaling 2B2C and transitioning to 2C Business** - Zhibao Technology Inc.'s growth depends on effectively expanding its 2B2C model and converting these relationships into direct 2C engagements. As a leader in embedded insurance brokerage, Zhibao aims to broaden its B channel base and convert end customers to direct clients through personalized consultations and targeted services. However, if Zhibao's offerings fail to meet customer expectations for value, pricing, or satisfaction, customers may switch to competitors. This could significantly affect Zhibao's business operations, financial condition, and growth prospects.

This list of risk factors is not comprehensive. For a full list, please refer to Zhibao Technology Inc.'s latest prospectus and/or annual filings.

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