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## INDUSTRY OVERVIEW

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*Certain information and statistics set out in this section and elsewhere in this prospectus are derived from various government and other publicly available sources and from the market research report prepared by Frost & Sullivan. Frost & Sullivan is an independent industry consultant engaged by us, and we commissioned Frost & Sullivan to prepare a market research report. The information extracted from the Frost & Sullivan Report should not be considered to be a basis for investments in Offer Shares or an opinion of Frost & Sullivan with respect to the value of any securities or the advisability of investing in our Company. We believe that the sources of such information are appropriate for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false in any material respect or misleading or that any fact has been omitted that would render such information false in any material respect or misleading. No independent verification has been carried out on such information by our Company or any other parties involved in the Global Offering (excluding Frost & Sullivan), or their respective directors, officers or representatives, and no representation is given as to the accuracy or completeness of such information.*

*Accordingly, you should not place undue reliance on such information. For discussions of risks relating to our industry, see “Risk Factors — Risks Relating to Our Business and Industry.”*

### INTRODUCTION

We engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report on, the drama series market in the PRC for use in this prospectus. The information from Frost & Sullivan disclosed in the prospectus is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB450,000, and is disclosed with the consent of Frost & Sullivan. The Frost & Sullivan Report has been prepared by Frost & Sullivan independently without any influence from us or other interested parties. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York and its services include, among others, industry consulting, market strategic consulting and corporate training. Its industry coverage includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

### SOURCE AND RELIABILITY OF INFORMATION

Frost & Sullivan conducted (i) primary research, which involved discussing the status of the industry with certain leading industry participants; and (ii) secondary research, which involved reviewing company reports, independent research reports and data based on its own research database.

Frost & Sullivan adopted the following primary assumptions while making projections: (i) global social, economic and political environment is likely to remain stable in the forecast period; (ii) purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions; and (iii) related industry key drivers are likely to drive the market in the forecast period.

Frost & Sullivan had also fully taken the impact of the COVID-19 on drama series market into consideration in the assumptions regarding the market sizing forecast, which was reflected in the following aspects (i) most drama series to be filmed or being filmed were temporarily halted in the first quarter of 2020 due to the strict measures adopted by some provinces in the PRC to limit the access to public spaces, and the completion time of the production was expected to be postponed; (ii) the revenue generated from the production and distribution of drama series was expected to decrease in 2020 as the distribution licenses of the TV series could not be obtained as originally planned; and (iii) considering the revenue decline during the outbreak of COVID-19, the brand owners may decrease their marketing and advertising budget in 2020, which may lead to the decrease in the advertising revenues of TV channels

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and online video platforms and then limit the abilities of these broadcasting channels to purchase or invest in new drama series. The aforementioned factors are likely to affect the growth of the drama series market in the short term; therefore, the growth rate of the market slows down during the forecast period. Since the operation of drama series market has gradually recovered in the second quarter of 2020, including the filming work and distribution and marketing activities, the negative impact of COVID-19 on the market is expected to reduce in 2021. It is expected that the market size and growth rate of drama series market will return to its previous level.

### THE PRC DRAMA SERIES MARKET

#### Overview

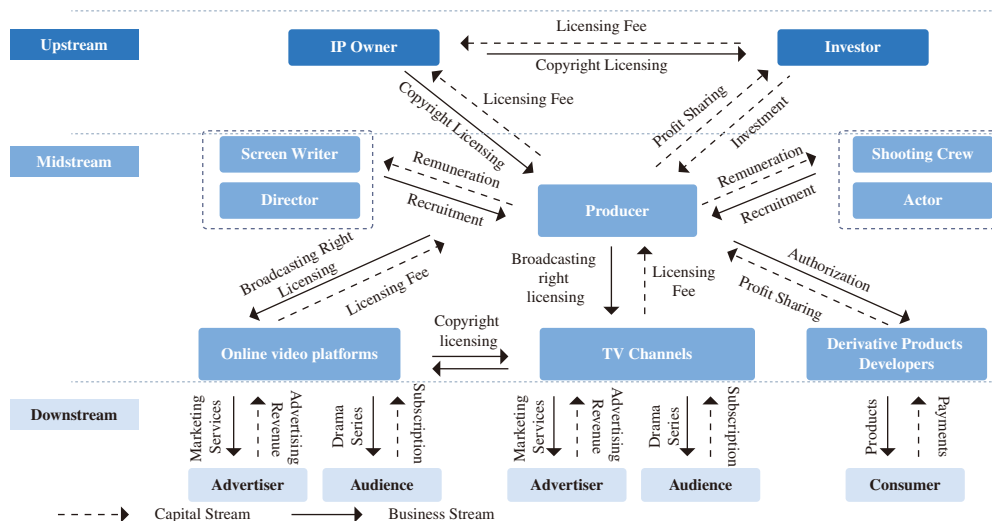
#### *Definition and Segmentation of the Drama Series Market in the PRC*

The drama series market in the PRC consists of two sub-segments, namely, the TV series market and the web series market. According to the Frost & Sullivan Report, TV series is defined as drama series with distribution license issued by the NRTA which could be broadcast on either TV channels or online video platforms; while web series is defined as drama series that needs to be filed and reviewed by the NRTA, which could be broadcast only on online video platforms.

#### *Value Chain Analysis of the Drama Series Market in the PRC*

According to the Frost & Sullivan Report, the value chain of the drama series market in the PRC could be generally divided into (i) upstream — IP exploitation and capital preparation; (ii) midstream — production and distribution, and (iii) downstream — TV and Web series broadcasting.

Initiated by producers or investors who purchase the copyrights of stories or IPs, drama series production starts from IPs exploitation and transaction as well as project funds raising. Producers play a core role in coordinating with multiple parties including shooting crew, directors, actors as well as distribution channels. Leading players usually have their own distribution teams and have built up deep cooperation with TV channels and online video platforms to make sure the produced drama series delivered to audience via diverse channels. The chart below illustrates the value chain analysis of the drama series market in the PRC:



Source: Frost & Sullivan Report

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### *Size and Growth of the Drama Series Market in the PRC*

Drama series, consisting of both TV and web series, flexibly incorporating comprehensive artistic factors to achieve the purpose of narratives, have become a popular entertainment activity in the fragmented spare time in the PRC. The market size of drama series market in the PRC, as measured by licensing, distribution and advertising revenues, experienced rapid growth rate at a CAGR of approximately 4.5% between 2015 and 2019, expanding from approximately RMB83.0 billion to approximately RMB99.1 billion. Along with the increasing penetration of internet, particularly on mobile terminal, the favorable nature of internet including unlimited geography coverage, inclusivity and promptness effectively diversified the broadcasting channels of drama series, which allows the audiences to enjoy the freedom to engage with drama series contents in their fragmented spare time. In this case, the market size of drama series is forecasted to reach approximately RMB121.3 billion in 2024, attaining an estimated CAGR of approximately 4.1% between 2019 and 2024.

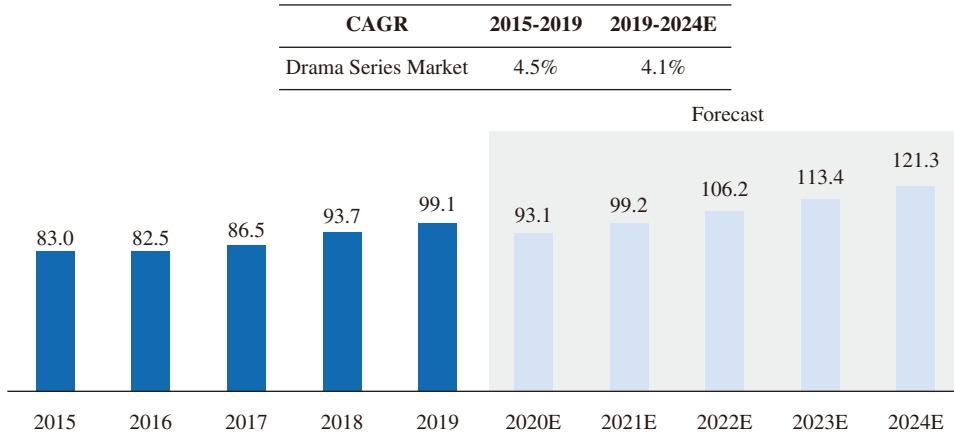
Given the abundant industry experience as well as the stable audience base accumulated by TV channels, TV channels served as the major channel for distribution and broadcasting of TV series in past decades. Affected by new rule in 2015 pursuant to which the same TV series should be broadcast on no more than two satellite TV channels each night during prime time, and each channel can broadcast at most two episodes per night, the landscape of drama series market has changed. Although this policy to some degree increased the number of TV series that could be broadcast through TV channels, it intensified the competitiveness among the companies focusing on production and distribution of TV series. Meanwhile, riding the wave of internet proliferation, the online video platforms, iQIYI, Youku and Tencent Video in particular, rapidly attracted a massive user base with tremendous user engagement in the past few years, and generated significant monetization opportunities. In this case, the web series market witnessed rapid growth between 2015 and 2019 at a CAGR of approximately 23.9%, reaching approximately RMB18.1 billion in 2019. The fast growth of the web series market is forecasted to maintain in the following years, at an estimated CAGR of approximately 11.1% between 2019 and 2024. Meanwhile, the TV series market increased from approximately RMB75.3 billion in 2015 to approximately RMB81.0 billion in 2019 at a CAGR of approximately 1.8%, and is expected to grow at an estimated CAGR of approximately 2.3% between 2019 and 2024, reaching approximately RMB90.7 billion in 2024.

In 2019, although the revenue of drama series generated from TV channels still take the major proportion of approximately 54.9% of the total market size, the decreasing of the advertising revenue of TV channels in recent years limited its capacity to purchase new TV series at competitive prices and many TV channels turned to purchase the second/third-run TV series with relatively lower prices. As such, the revenue of drama series generated from TV channels has recorded slight decrease between 2015 and 2019, from approximately RMB60.5 billion to approximately RMB54.4 billion. Meanwhile, the online video platforms placed increasing emphasis on web series in the past few years through continuously investments in self-produced web series or made-to-order web series with sufficient capital which lead to the rapid growth of the revenue of drama series generated from online video platforms, increasing from approximately RMB22.5 billion in 2015 to approximately RMB44.7 billion in 2019 at a CAGR of approximately 18.7%. The revenue of drama series generated from online video platforms is expected to grow at an estimated CAGR of approximately 8.9% from 2019 to 2024, reaching

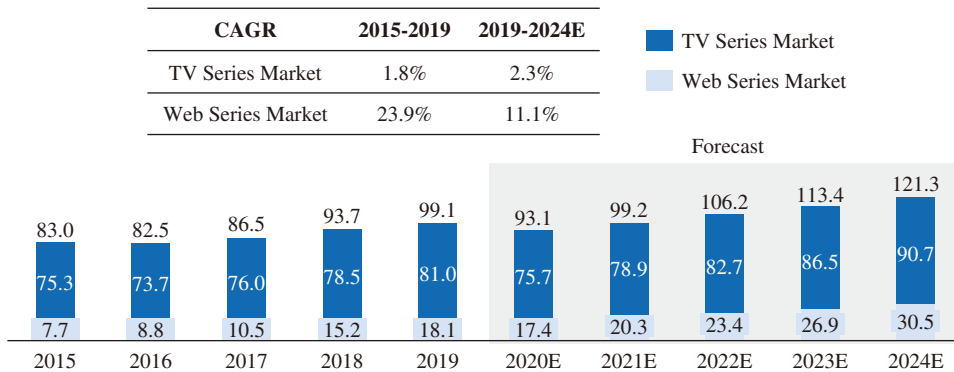
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approximately RMB68.3 billion in 2024. The charts below illustrate the market size of drama series and the breakdown by category and by channel from 2015 to 2024, respectively:

**Market Size<sup>(1)</sup> of Drama Series Market, the PRC**  
**RMB Billion; 2015-2024E**



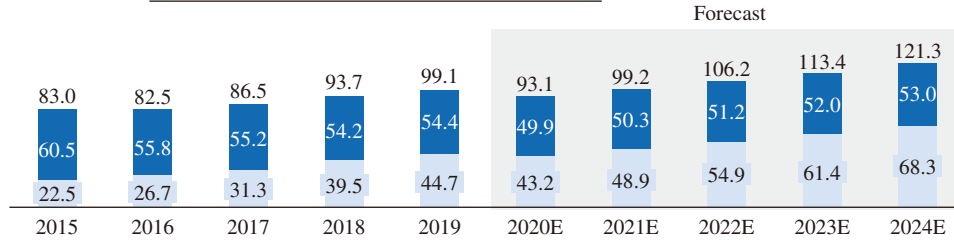
**Market Size<sup>(1)</sup> Breakdown of Drama Series Market by Category, the PRC**  
**RMB Billion; 2015-2024E**



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### Market Size<sup>(1)</sup> Breakdown of Drama Series Market by Channel, the PRC RMB Billion; 2015-2024E

CAGR	2015-2019	2019-2024E
TV Channel	-2.6%	-0.5%
Online Video Platform	18.7%	8.9%



Source: Frost & Sullivan Report

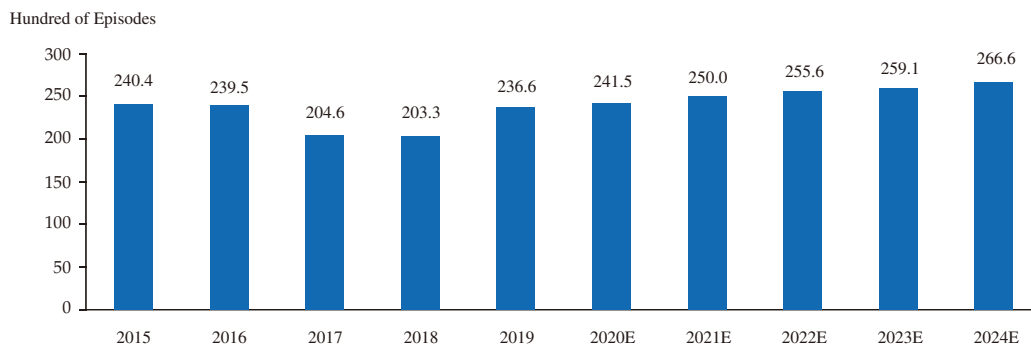
Note:

- (1) The market size refers to the licensing, distribution and advertising revenues generated from TV series and web series, or generated through TV channels and online video platforms, as applicable.

The number of episodes of drama series distributed for the first-run and re-run broadcast decreased from 240.4 hundred in 2015 to 203.3 hundred in 2018, and increased to 236.6 hundred in 2019, primarily because the decreasing of the advertising revenue of TV channels in recent years limited its capacity and procurement budget to purchase the first-run TV series, while the web series market has rapidly developed and served as the major driving force for the growth of the episodes of drama series distributed for the first-run and re-run broadcast since 2017. The number of episodes of drama series distributed for the first-run and re-run broadcast is expected to further increase to 266.6 hundred in 2024, representing a CAGR of 2.4%. Between 2019 and 2024, the episodes of TV series distributed for the re-run broadcast and the episodes of web series distributed for both the first-run and re-run broadcast are expected to serve as the major underlying driving force to promote the growth, while the number of episodes of the TV series distributed for the first-run broadcast is projected to remain relatively stable. The table below sets forth the number of episodes of drama series distributed for the first-run and re-run broadcast from 2015 to 2024:

### Episodes of Drama Series Distributed for the First-run and Re-run Broadcast Hundred Episodes; 2015-2024E

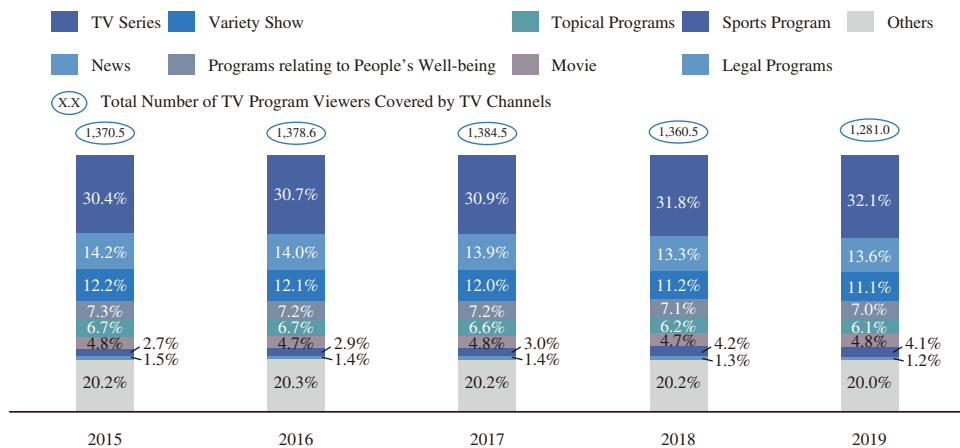
CAGR	2015-2019	2019-2024E
Episode of Drama Series	-0.4%	2.4%



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The number of TV program viewers covered by TV channels in the PRC remained relatively stable from 2015 to 2017. Since 2017, the total number of TV programs viewers covered by TV channels slightly decreased from approximately 1,384.5 million in 2017 to approximately 1,281.0 million in 2019, primarily due to the fierce competition from online video platforms. Among all types of TV programs broadcast on the PRC TV channels, TV series are most popular, the market share of which increased from 30.4% in 2015 to 32.1% in 2019 in terms of viewership rating. The chart below illustrates the total number of TV program viewers covered by TV channels in the PRC and the market share of TV programs broadcast on the PRC TV channels in terms of viewership rating between 2015 and 2019.

**Total Number of TV Program Viewers Covered by TV Channels and Market Share of TV Programs by Types in terms of Viewership Rating<sup>(1)</sup>, the PRC**  
**Million; Percentage %; 2015-2019**



Source: Frost & Sullivan Report

Note:

- (1) The market share of different types of TV programs in terms of viewership rating refers to the percentage of the total number of audience who are watching a certain type of TV program out of the total number of the audience who are watching TV programs during the whole day.

### **Analysis of the Cost of Drama Series**

The cost of drama series mainly comprises of the purchase or creation of scripts, cost during the production process such as the remuneration of actors, purchase of costume and related equipment, and the marketing and distribution expenditures. Attributed to the standardization of the whole industry development, it is expected that the production cost of drama series is likely to remain stable or slightly decrease to some extent in the following years.

The production of drama series may last for a long period of time with many different parties being involved. During the production of drama series, the capabilities of the drama series production companies to manage the overall schedule at all levels, control the budget and coordinate different working groups are viewed as critical factors to guarantee the overall process could be implemented in a cost-effective manner. Considering the better resources allocation, drama series production companies tend to outsource part of filming work, post-production work as well as advertising activities to third-party studios with extensive practical experiences and abundant industry resources.

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In the past, the high remuneration of actors which accounted for a major portion of the total cost indeed posed a negative impact on the production of drama series due to the budget limitation and imbalanced allocation. In order to prompt the health development of drama series market, the regulators and industry associations jointly published the official instructions, such as the Notifications on Prospering and Developing the TV and Web Series Industry (《關於支持電視劇繁榮發展若干政策的通知》) and the Opinions on the Allocation of Production Costs of TV Series and Web Series (《關於電視劇網絡劇製作成本配置比例的意見》), to adjust the budget allocation, so that the remuneration of actors could be controlled within a reasonable range.

In addition, the expenditure on marketing and distribution is an important component of cost structure of the drama series market. In general, in-house marketing and distribution departments of drama series companies or third-party professional and experienced marketing and distribution companies are responsible to distribute the drama series to TV channels or online video platforms. In some cases, the drama series companies are willing to reasonably increase the marketing budget of the drama series to promote the drama series to attract more audience and achieve better feedbacks. The cost of marketing and distribution of drama series is related to many factors including but not limited to the choice of marketing channels, time windows and length of the campaigns, as well as the staffing arrangement.

### *Policies and Regulations of the PRC Drama Series Market*

The production and distribution of drama series are extensively regulated in the PRC, and the production and distribution of drama series are subject to various PRC laws, rules and regulations. Please see “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes” and “Regulatory Overview — Regulations in Relation to Production of Web Series.”

While, in recent years, the PRC government has released several favorable policies towards the drama series market, including but not limited to the Notice on Promoting Self-innovation Radio and TV Programs Production (《關於大力推動廣播電視節目自主創新工作的通知》) issued by the SAPPRFT (a predecessor of the NRTA) on June 20, 2016, the Notifications on Prospering and Developing the TV and Web Series Industry (《關於支持電視劇繁榮發展若干政策的通知》) jointly issued by the SAPPRFT, the NDRC, the MOFCOM, etc. on September 9, 2017, and the Opinion about Cost Allocation of TV Series and Web Series (《關於電視劇網絡劇製作成本配置比例的意見》) issued by the SAPPRFT on September 22, 2017, which may lower the proportion of our cost on actors’ remuneration, and the Notice for Further Strengthening the Administration on Radio or Television Programmes and Online Audio-visual Entertainment Programmes (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》) issued by the NRTA on October 31, 2018.

### **The PRC TV Series Market**

#### *Production and Distribution of TV Series in the PRC*

Pursuant to the Administrative Provisions on the Production and Operation of Radio and Television Programs (《廣播電視節目製作經營管理規定》) promulgated by the SARFT (a predecessor of NRTA) on July 19, 2004, which became effective on August 20, 2004, drama series companies are required to obtain the Television Drama Production Permit (《電視劇製作許可證》) Class A or Class B in order to produce and distribute drama series legally in the PRC. Class A and Class B Television Drama Production Permits vary in many aspects, such as effective terms and the drama series production application requirements.



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Obtaining the Television Drama Production Permit (Class A) may speed up the production and distribution of drama series, and the broadcasting channels prefer to cooperate with holders of the Television Drama Production Permit (Class A). In 2019, there were only 73 companies out of more than 18,000 companies holding the Television Drama Production Permit (Class A), which represent the recognition on their past performance by relevant regulatory departments and the overall market. In 2019, among all the holders of the Television Drama Production Permit (Class A), 29 companies were non-state-owned enterprises, accounting for 39.7% of the total, and our Company was one of such holders.

TV series were overproduced in the PRC in the past several years. In 2019, 905 TV series that had applied for public record and registered with the NRTA were produced, which is 21.3% less than that in 2015. In 2019, the number of TV series that had obtained distribution licenses was 254 and only accounted for approximately 28.1% of TV series that had applied for a distribution license, indicating the overproduction in the PRC drama series market. Under such circumstance, the market competition has intensified and leading drama series production and distribution companies are more likely to distribute their high-quality works to leading broadcasting channels such as the top five TV channels and the top three online video platforms.

### *Licensing and Distribution Revenues of TV Series*

Licensing and distribution revenues of TV series generated by drama series production and distribution companies are the major component of the PRC TV series market. Attributed to the improvement of the quality of TV series together with the increasing investment in the PRC TV series, the licensing revenue of TV series witnessed a moderate growth at a CAGR of approximately 6.3% between 2015 and 2019, increasing from approximately RMB22.9 billion to approximately RMB29.1 billion and accounting for approximately 36.0% of the total PRC TV series market in 2019. Since the TV series could be distributed to both TV channels and online video platforms, the licensing revenue from TV series could be further breakdown by channels. In the past few years, the decreasing of advertising revenues of TV channels limited its capacity to purchase new TV series at competitive prices, which lead to the negative growth of the licensing revenue of TV series from TV channels. Besides, the licensing revenue of first-run TV series generated from TV channels reached approximately RMB12.9 billion in 2019, accounting for approximately 84.6% of the total licensing revenue of TV series from TV channels. The emergence and fast growth of online video platforms along with the proliferation of internet, particularly on mobile terminal, effectively diversified the broadcasting channel for TV series. Between 2015 and 2019, the licensing revenue of TV series generated from online video platforms had recorded a CAGR of approximately 19.2%, increasing from approximately RMB6.9 billion in 2015 to approximately RMB13.8 billion in 2019, and this figure is forecasted to reach approximately RMB19.0 billion in 2024.

The implementation of “One TV Series, Two Satellite TV Channels” policy intensified the competitions among TV channels for superior TV series, which directly drove up the per episode licensing revenue of new TV series on TV channels, rising from approximately RMB1.6 million in 2015 to approximately RMB2.0 million in 2019, attaining a CAGR of approximately 5.1%. The per episode licensing revenue of new TV series on TV channels is estimated to further increase at an estimated CAGR of 2.1% between 2019 and 2024, reaching to approximately RMB2.2 million in 2024. Meanwhile, the proliferation of internet and development of related mobile intelligent devices expand broadcasting channels for TV series. The favorable characteristics of internet, including its unlimited geography coverage, inclusivity and promptness allow itself to be the critical traffic source for TV series to maximize its commercial value. Under such conditions, the licensing fee for per episode of TV series paid



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by online video platforms witnessed rapid growth between 2015 and 2019, increasing from approximately RMB1.8 million to approximately RMB2.4 million, representing a CAGR of approximately 7.6% between 2015 and 2019. This figure is estimated to further increase to approximately RMB2.8 million by 2024.

However, the licensing fee per episode of TV series with large scale investment (investment size of over RMB100.0 million) paid by both online video platforms and TV channels declined from 2018 to 2019 due to the relevant PRC national regulations and policies to restrict actors' remunerations issued in 2018. Specifically, the average licensing fee per episode of TV series with large scale investment paid by online video platforms decreased by 21.1% from RMB4.8 million in 2018 to RMB3.8 million in 2019 while the average licensing fee of such TV series paid by TV channels decreased by 9.1% from RMB2.8 million in 2018 to RMB2.5 million in 2019. The difference between the two declining rates as discussed above is because (i) many online video platforms significantly increased their budget on purchasing copyrights of exclusively professionally-produced drama series in order to compete with TV channels for audience and maintain and strengthen existing customers' loyalty, which substantially drove up the market price per episode of the first-run TV series with large-scale investment paid by online video platforms from 2015 to 2018; while (ii) the increments of the licensing fee per episode of the first-run TV series with large scale investment paid by TV channels is relatively lower than that paid by online video platforms due to the weak profitability of such TV channels, especially the stagnant growth of advertising revenue; therefore (iii) when both online video platforms and TV channels proportionately reduced the licensing fee per episode of TV series with large-scale investment paid by them in 2019 from the respective base prices in 2018, the decline in the licensing fee per episode of TV series with large scale investment paid by online video platforms seems more notable compared with the decline of that paid by TV channels.

### **The PRC Web Series Market**

#### *Size of Online Video Users and Online Video Subscribers*

The popularity of online video platforms increased a lot in the past few years with its diversity and interactivity. In 2019, the number of online video users reached approximately 646.6 million, accounting for 73.2% of internet users. Online video platforms are increasingly functioning as key aggregators and distributors of video content, which provide a broad range of content that caters to different users, to effectively compete for a greater share of user's fragmented leisure time. Professionally-produced and rich video content creates monetization opportunities for these platforms from membership service and advertising service. The number of online video subscribers witnessed impressive increase at a CAGR of 31.9% between 2015 and 2019, expanding from approximately 128.5 million in 2015 to approximately 389.1 million in 2019 and taking up 60.2% of the total online video users in 2019. Along with the shift of the business model of online video platforms from heavy reliance on online advertising revenue to a more balanced and diversified combining of advertising and membership services, the number of online video subscribers is forecasted to reach approximately 689.9 million in 2024 and its percentage is projected to reach 82.9% in 2024.

Chinese audience is increasingly willing to pay for the access to the premium content and quality service. The revenue generated from providing membership services by online video platforms experienced dramatic growth in the past years, climbing from approximately RMB6.5 billion in 2015 to approximately RMB44.6 billion in 2019, representing a CAGR of 62.0% between 2015 and 2019. The payments from subscribers can be re-invested by the online video platforms to produce or acquire more

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premium content, attracting more subscribers. Additionally, subscribers are likely to visit the platforms more often, increasing user stickiness and creating more monetization opportunities. The payment of online video subscribers is forecasted to reach approximately RMB132.9 billion in 2024, representing an estimated CAGR of 24.4% between 2019 and 2024.

### *Broadcast Web Series in the PRC*

The number of broadcast web series in the PRC increased at a CAGR of 10.1% between 2015 and 2019 from 85 to 125, and is estimated to reach 156 in 2024. Over the long-term operation, online video platforms have accumulated massive end user data, which could be utilized to analyze the viewing hotspot and audiences' preference which contribute to its investment optimization on web series.

### *Market Trend of the Production of Web Series*

In recent years, along with the rapid growth of online video platforms in terms of the revenue as well as the investment on video content, the role of online video platforms is more than just a broadcasting channel. In order to enhance its competitive edge and gain more initiative in drama series market, the online video platforms proactively extent the business into the drama series production sectors. It is observed that increasing number of third-party drama series production and distribution companies strengthened their cooperation with online video platforms in the aspect of web series production mainly through producing made-to-order web series for online video platforms. The emergence and development of made-to-order web series create a win-win situation for third-party production companies and online video platforms. Online video platforms are able to make full use of external resources to produce web series while having relatively high degree of participation during the whole process ranging from script creation and production to marketing and distribution, thereby the quality of the works could be ensured. Made-to-order web series positively enrich the content library of online video platforms. Meanwhile, under the made-to-order drama series business model, drama series producers could reduce their working capital pressure, to certain extent, at the early stage of the drama series production and secure the production profit by the capital injection or investment from online video platforms, lock the distribution channel of drama series produced at relatively early stage of the whole production and distribution process, and in turn speed up their investment return.

## COMPETITIVE LANDSCAPE OF DRAMA SERIES IN THE PRC

### **Ranking and Market Share of Leading Drama Series Production and Distribution Companies in the PRC**

The PRC drama series market is highly competitive with more than 18,000 market players with differentiated background and capabilities in 2019. Although there are plenty of market players being involved in this market, leading drama series production and distribution companies have obtained superior industry resources and established long-term cooperation business relationships with leading broadcasting channels such as the top five TV channels and the top three online video platforms. Therefore, the top 10 market players accounted for approximately 24.8% of the total licensing and distribution revenues in the PRC drama series market with approximately RMB10.8 billion in 2019. Our Company, as one of the few non-state owned companies holding Television Drama Production Permit (Class A), has already formed a high entry barrier. The channel resources of and the quality content provided by our Company have well positioned us in the market competition.

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Our Company ranked sixth in terms of the revenue generated from the drama series production and distribution in 2019, accounting for a market share of approximately 1.8%. The table below sets forth the top 10 drama series production and distribution companies in the PRC in terms of revenue in 2019:

### Leading Drama Series Production and Distribution Companies in Terms of the Revenue in the PRC, 2019

Ranking	Company	Revenue (RMB Million)	Market Share <sup>(1)</sup>	Background
1	Company A	1,981.0	4.6%	Established in 2005, a listed company on the Shanghai Stock Exchange, and focusing on the production and distribution of drama series and TV variety programs
2	Company B	1,500.0	3.4%	Established in 2011, and focusing on the production and distribution of drama series
3	Company C	1,400.0	3.2%	Established in 2014, and focusing on the production and distribution of drama series
4	Company D	1,210.0	2.8%	Established in 2007, a subsidiary of a listed company on the Hong Kong Stock Exchange, and mainly focusing on the production and distribution of drama and films
5	Company E	1,060.0	2.4%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
<b>6</b>	<b>Our Company</b>	<b>765.1</b>	<b>1.8%</b>	
7	Company F	730.5	1.7%	Established in 2004, a listed company on the Shenzhen Stock Exchange, and focusing on the production and distribution of drama series and films and business related to Internet Entertainment and live entertainment
8	Company G	720.0	1.7%	Established in 2012, and covering the business of production and distribution of drama series and talent management
9	Company H	715.0	1.6%	Established in 1998, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series and talent management
10	Company I	689.0	1.6%	Established in 2003, a listed company on the Shanghai Stock Exchange, and mainly covering the production and distribution of drama series and films, artist management and the sales of molybdenum product

*Source: Frost & Sullivan Report*

*Note:*

- (1) The market share refers to the percentage of the revenue of each market player in the total production, licensing and distribution revenue in the PRC drama series market, the figure of which was approximately RMB43.5 billion in 2019.

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Our Company ranked fourth in terms of the number of first-run TV series broadcast between 2017 and 2019, accounting for approximately 5.4% of total number of first-run TV Series broadcast during the same period. In addition, our Company ranked third, fourth and fourth in terms of the number of first-run TV series broadcast in 2017, 2018 and 2019, respectively, with a market share of 4.8%, 5.4%, and 6.0% for the same years, respectively. The table below sets forth the top five drama series production and distribution companies in the PRC in terms of the number of first-run TV series broadcast between 2017 and 2019:

### Leading Drama Series Production and Distribution Companies in Terms of the Number of First-run TV Series Broadcast in the PRC, 2017-2019

Ranking	Company	Number of First-run TV Series <sup>(1)</sup>	Market Share	Background
1	Company A	31	11.1%	Established in 2005, a listed company on the Shanghai Stock Exchange, and focusing on the production and distribution of drama series and TV variety programs
2	Company E	24	8.6%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
3	Company J	22	7.9%	Established in 2005, a listed company on the Shanghai Stock Exchange, and mainly covering the business of production and distribution of films and drama series
4	<b>Our Company</b>	<b>15</b>	<b>5.4%</b>	
5	Company K	14	5.0%	Established in 2012, and covering the business of production and distribution of drama series and other TV programs

*Source: Frost & Sullivan Report*

*Note:*

- (1) The number of first-run TV series refers to the number of TV series in which the relevant company was involved as either a producer, a co-producer or a distributor. The number of the first-run TV series broadcast between 2017 and 2019 was 280.

The top five TV channels play critical roles in the PRC drama series market. In 2019, the licensing and distribution fee paid by the top five TV channels for first-run TV series was approximately RMB6.7 billion, accounting for approximately 51.8% of the total first-run licensing and distribution fee paid by all TV channels, which indicates the strong purchasing power of the top five TV channels compared with other TV channels.

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## INDUSTRY OVERVIEW

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Our Company ranked third in terms of the number of first-run TV series in which the companies engaged as producers, co-producers or distributors broadcast on the top five TV channels during the prime time in the PRC in 2019. The table below sets forth the top five drama series production and distribution companies in the PRC in terms of the number of first-run TV series broadcast on the top five TV channels during the prime time in 2019:

### Leading Drama Series Production and Distribution Companies in Terms of the Number of First-run TV Series Broadcast on the Top Five TV Channels during the Prime Time in the PRC, 2019<sup>(1)</sup>

Ranking	Group Name	Number of First-run TV Series Broadcast on the Top Five TV Channels during the Prime Time <sup>(2)</sup>	Market Share	Background
1	Company E	8	14.8%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
2	Company J	6	11.1%	Established in 2005, a listed company on the Shanghai Stock Exchange, and mainly covering the business of production and distribution of films and drama series
3	<b>Our Company</b>	<b>5</b>	<b>9.3%</b>	
4	Company A	5	9.3%	Established in 2005, a listed company on the Shanghai Stock Exchange, and focusing on the production and distribution of drama series and TV variety programs
5	Company D	3	5.6%	Established in 2007, a subsidiary of a listed company on the Hong Kong Stock Exchange, and mainly focusing on the production and distribution of drama and films

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*Source: Frost & Sullivan Report*

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*Notes:*

- (1) In 2019, there were 54 first-run TV series broadcast on the top five TV channels during the prime time.
- (2) The number of first-run TV series broadcast on the top five TV channels during the prime time here refers to the number of first-run TV series in which the relevant company was involved as either a producer, a co-producer or a distributor. If the number of first-run TV series here does not include those in which the relevant company was involved only as a co-producer, we will rank first in the market.

## INDUSTRY OVERVIEW

Our company ranked sixth in terms of the number of episodes of drama series distributed for the first-run and re-run broadcast in 2019, accounting for a market share of approximately 2.1%. The table below sets forth the top 10 drama series production and distribution companies in terms of the number of episodes of drama series distributed for the first-run and re-run broadcast in 2019:

### Leading Drama Series Production and Distribution Companies in Terms of the Number of Episodes of Drama Series Distributed for the First-run and Re-run Broadcast in the PRC, 2019

Ranking	Company	Number of Episodes of Drama Series Distributed for the First-run and Re-run Broadcast <sup>(1)</sup>	Market Share	Background
1	Company L	1,623	6.9%	Established in 2013, a listed company on the Hong Kong Stock Exchange, and mainly focusing on the business of production and distribution of drama series
2	Company K	1,144	4.8%	Established in 2012, a listed company on the National Equities Exchange and Quotations, and mainly covering the business of production and distribution of drama series and variety programs
3	Company M	838	3.5%	Established in 2013, a listed company on Hong Kong Stock Exchange, and mainly focusing on the business of production and distribution of drama series
4	Company E	629	2.7%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
5	Company A	523	2.2%	Established in 2005, and focusing on the production and distribution of drama series and TV variety programs
<b>6</b>	<b>Our Company</b>	<b>499</b>	<b>2.1%</b>	

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## INDUSTRY OVERVIEW

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Ranking	Company	Number of Episodes of Drama Series Distributed for the First-run and Re-run Broadcast <sup>(1)</sup>	Market Share	Background
7	Company J	341	1.4%	Established in 2005, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series and films, and operation of movie theatres.
8	Company N	211	0.9%	Established in 1997, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series, and artist management
9	Company I	210	0.9%	Established in 2003, a listed company on the Shanghai Stock Exchange, and mainly covering the production and distribution of drama series and films, artist management and the sales of molybdenum product
10	Company O	172	0.7%	Established in 2002, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series, films and variety programs and marketing services

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*Source: Frost & Sullivan Report*

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*Note:*

- (1) In 2019, there were 585 drama series (23,655 episodes, including TV series and web series) that has been distributed for the first run and re-run broadcast.



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## INDUSTRY OVERVIEW

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In 2019, our Company obtained the distribution license for one of our TV series, the produced hours of which are approximately 39.0 hours, accounting for approximately 0.5% of the total produced hours of TV series that obtained the distribution license in the market during the same period. In addition, our co-investors or co-producers or production services providers for our TV series obtained the distribution licenses for another four of our self-produced and made-to-order TV series in 2019. The total produced hours of the five TV series are approximately 170.3 hours, accounting for a market share of approximately 2.1%. The table below sets forth the top five drama series production and distribution companies in terms of the produced hours of TV series that obtained the distribution license by the respective companies in 2019:

### Leading Drama Series Production and Distribution Companies in Terms of the Produced Hours of TV Series that Obtained the Distribution License in the PRC, 2019

Ranking	Company	Produced Hours of TV Series that Obtained the Distribution License <sup>(1)</sup>	Market Share	Background
1	Company Q	252.8	3.2%	Established in 2005, a listed company on the Shenzhen Stock Exchange, and covering the business of production and distribution of drama series, production of variety shows and online video platform operation
2	Company A	165.0	2.1%	Established in 2005, and focusing on the production and distribution of drama series and TV variety programs
3	Company E	129.0	1.6%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
4	Company B	85.8	1.1%	Established in 2011, and focusing on the production and distribution of drama series
5	Company P	81.8	1.0%	Established in 2007, and focusing on the business of production and distribution of drama series and talent management

*Source: Frost & Sullivan Report*

*Note:*

- (1) The produced hours of TV series that obtained the distribution license are estimated by multiplying the total number of episodes of the TV series that obtained the distribution license during the same period by 45 minutes, as the length of each episode of each TV series shall not exceed 45 minutes in accordance with the relevant guidance implemented by the SARFT.

### Market Drivers of the PRC Drama Series Market

According to the Frost & Sullivan Report, the PRC drama series market is primarily driven by the following factors:

- *Sustainable growth of demands for premium video content in spare time.* The PRC has stepped into a new era of growth under the “new norm,” in which the economic growth model has begun to shift from an investment-driven model towards a consumption-driven model. Meanwhile, the cumulative effect of decades of rising disposable income and living standards has caused significant changes in general consumption patterns in the PRC. Chinese consumers start to seek high-quality and spiritual enjoyment products, rather than basic living necessities. Such favorable macro circumstances and sustainable growth of entertainment demands provide massive opportunities for the development of video entertainment industry. Gradually, watching video programs, such as TV series, web series, and films, has become popular daily entertainment activities.
- *The prevalence of internet and mobile internet.* Riding the wave of the “internet plus” concept advocated by the central government, year 2016 is the golden year for the flourishing of internet and mobile internet. The characteristics of internet, including its unlimited geography coverage, inclusivity and promptness allow itself to be the major traffic source for many business activities as well as for the video entertainment industry. To expand channels and also cover more audience, the majority of TV Series are broadcast on internet platforms. Many internet platforms also invest or produce drama series by themselves to attract users and traffic. Given the interactivity and mobility of internet, online video platforms have gradually overtaken TV channels’ leading status in broadcasting and become the preferred choice for audiences. Considering the huge opportunities provided by the internet and mobile internet, the development of the PRC video entertainment market is expected to accelerate.
- *Innovations in drama series.* To better fulfill audience’ rising expectations on the quality of drama series, such as script authoring, shooting technology, post production level, and the performance of actors, drama series producers and online video platforms have intensively devoted their efforts on innovations. Some have established in-house research team focusing on content authoring, audience behaviors analysis and so forth to enhance the quality of drama series, so that the audience rating of drama series can improve in such competitive market. Besides, technological innovations are viewed as one key success factors. For example, new special effects technology is supposed to enhance visual appreciation. In addition, technologies such as big data analytics have been widely utilized in the process of content designing, marketing, and distributing. The relentless efforts made by various market players have stimulated the further development of the market as a whole.

### Entry Barriers of the PRC Drama Series Markets

According to the Frost & Sullivan Report, the entry barriers of the PRC drama series market are relatively high and primarily consist of the following factors:

- *Capital and resources.* Normally, drama series business involves a great amount of working capital for overhead expenditures across whole process, such as remunerations for actors and creators, costs of post-production, and expenses of marketing and distribution. High capital investment positively correlates with high quality and considerable profit income. Apart from the direct investment, some producers may utilize financial leverage through bank loans, funds or internet financing, which requires strong integrating skills in negotiating with various resources. The lack of sufficient budget and rich resources is likely to pose challenges to the new entrants.
- *Industry expertise.* Industry expertise and experience, including capability to coordinate all parties effectively, ability to keep abreast of the latest market trends and satisfy the audiences' ever-changing preferences, as well as the experience in managing regulatory bodies are extremely critical for drama series producers to distinguish themselves from other competitors. In addition, experienced production companies generally have a well-recognized image, which is more likely for them to access to talented script writer, directors and casts for the production of drama series.
- *Strong distribution capacity and cooperation with broadcasting channels.* Normally, drama series are distributed through TV channels and online video platforms. The experienced drama series distributors are required to keep track of the market evolving, including trends of drama series and view hotspots. Besides, the distributors thoroughly understand the targeted audience of different broadcasting channels and their viewing preferences. Under such conditions, the quality drama series could be distributed through appropriate channels within befitting timing. In addition, it is important to maintain stable business relationships with different distribution channels. It is acknowledged that communication and cooperation with major distribution channels is time-consuming and difficult for new entrants.

### Future Trends of the PRC Drama Series Market

- *Export of the PRC drama series will accelerate.* Along with the promotion of Chinese culture around the world and the progress in drama series production, in recent years, the distribution of PRC drama series overseas continues to expand in terms of the quantity of products and transaction value. TV channels and internet media have been jointly shaping the pattern of drama series export landscape. On many overseas internet platforms, the impacts of Chinese drama series improve remarkably, and the profit is primarily generated from the selling of copyright and on-demand services. With the progress in drama series production technology and the innovations in the promotion of drama series overseas, such as establishing localized PRC TV channels, the export of the PRC drama series will accelerate.

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## INDUSTRY OVERVIEW

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- *Diversification of drama series content and business models.* Rapid development of drama series market attracts a wide range of players to participate in this business. Online literature, internet game, and comics are the major sources of drama series content. In addition, accumulated experiences about content operation and audience analysis of internet media allow them to produce quality drama series directly targeted at audience in order to satisfy their ever-changing preferences. Advertisement is the major profit stream for particularly online video platforms. Traditional media has adopted new advertising models, such as flexible AD placement, multi-screen interaction and data-based marketing solution, to diversify the business models. Apart from the advertising income, with the gradually enhanced protection on intellectual property and the decrease in pirated editions, online media platforms are able to generate profit from users paying for on-demand services.
- *Integration and interaction of online and offline broadcasting channels.* In the past years, distribution channels, particularly TV channels, have become major distribution channels for drama series. However, the number of drama series which can be broadcast through TV channels is limited due to policy restrictions. Meanwhile, with the increasing internet penetration rate particularly on mobile terminal, given the accessibility and convenience of internet, including unlimited geography coverage, inclusivity and promptness, internet platforms gradually become competitive in respect to the content distribution. In addition, the broadcasting schedule of drama series on internet platforms is almost synchronized with TV channels. Generally, both distribution channels have their own advantages. In the future, TV channels and online video platforms are likely to form strategic cooperation in sharing resources and ultimately improve efficiency and effectiveness.