
INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from the Analysys Report prepared by Analysys, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Analysys to prepare the Analysys Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Sole Sponsor, [REDACTED], [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

SOURCES OF INFORMATION

We commissioned Analysys, an independent market research and consulting firm, to conduct a detailed research on the intelligent content recommendation industry in China, including online literature industry, digital marketing industry and online games industry from 2018 to 2027. The report commissioned has been prepared by Analysys independent of our influence.

Analysys is a professional technology and market analysis firm in the area of China's digital intelligence, which offers big data analytics and consulting services to improve clients' digital business capabilities and their market competitiveness. We have agreed to pay a fee of RMB310,000 to Analysys in connection with the preparation of the Analysys Report. We have extracted certain information from the Analysys Report in this section, as well as in the sections headed "Summary", "Risk Factors", "Business", "Financial Information" and elsewhere in this document to provide our potential [REDACTED] with a more comprehensive presentation of the industry in which we operate.

Analysys' main sources of data and information consist of both primary and secondary sources. Primary sources involves (i) Analysys' own data base from its market observance; and (ii) user data detected by Analysys' proprietary data monitor Apps, Analysys Qianfan. Secondary source involves reviewing information from data and publication from publicly-available sources, including official data from government agencies, company reports, and publicly-available interviews.

In compiling and preparing the Analysys Report, Analysys adopted the following basis and assumptions: (i) the political, economic and social environment in the PRC remains stable, which ensures the continuous development of China's intelligent recommendation market; (ii) the PRC government continues supporting the development of China's online literature industry, digital marketing industry and online games industry; and (iii) China's online literature industry, digital marketing industry and online games industry continue to expand with the increase in the demand and supply.

Our Directors confirmed that, after exercising reasonable care, as of the Latest Practicable Date, there had been no adverse change in the market information set forth herein since the date on which the Analysys Report was issued.

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INTELLIGENT CONTENT RECOMMENDATION INDUSTRY IN CHINA

Overview

Intelligent recommendation technology is a technology that provides users with personalized information services and decision support based on AI and big data. The technology effectively solves information problems such as overload and long-tail content. AI is a cutting-edge technology to study and develop theories, methods, technologies and application systems for simulating, extending and expanding human intelligence. Since AI is a basic technology, not a commodity or service, the "AI industry chain" is a very extensive industry, and many enterprises that use AI-related technologies in their products or services are in this industry chain. China's AI industry chain can be divided into three parts: (i) basic layer, which mainly provides foundation and infrastructure for AI technology R&D or application, such as chips, big data, cloud computing and sensors; (ii) technology layer, mainly refers to AI technology R&D and application exploration, such as computer vision, coding and decoding and intelligent recommendation system, among others; and (iii) application layer, which mainly refers to the application of AI technology in industries including manufacturing, internet and services, including intelligent driving, intelligent content recommendation and robots, among others. Most enterprises in the technology layer are engaged in the application layer at the same time, where the achievements obtained in the technology layer are monetized through applications.

Intelligent recommendation algorithm is an important part of intelligent recommendation technology. Currently, there are three main recommendation algorithms, namely, content-based recommendation, collaborative filtering recommendation and hybrid recommendation. The features of these three recommendation algorithms are as follows: (i) content-based recommendation involves recommending similar or relevant items to users based on their historical records of favorite items; (ii) collaborative filtering recommendation utilizes collaborative filtering model for recommendation based on users' historical interaction behaviors (such as users' clicks and purchase records), which has higher recommendation accuracy and is currently the most widely used algorithm; and (iii) hybrid recommendation combines content-based recommendation algorithms and collaborative filtering recommendation algorithms to improve the prediction performance and provide more precise recommendation results.

Intelligent recommendation system, also known as personalized recommendation system, is one of the earliest applications of artificial intelligence technology primarily based on a set of algorithmic recommendation technologies to achieve intelligent recommendation. Leveraging AI and big data, an intelligent recommendation system analyzes available information to produce a detailed and individualized picture of each user and make predictions about his/her preferences and behaviors. Intelligent recommendation system collects and extracts characteristic information of the products, digital content and other digital information generated from users' behaviors, and provides users with recommended content and information that may be of their interest or taste. Enterprises develop businesses based on intelligent recommendation technology, through which the intelligent recommendation industry is established. Intelligent recommendation industry mainly includes intelligent content recommendation industry and intelligent service recommendation industry. Based on intelligent recommendation technology, enterprises develop online literature, online games and other related digital content businesses, which collectively formed the intelligent content recommendation industry. Moreover, based on the same technology, enterprises develop e-commerce, life service, tourism and other related digital service business, through which the intelligent service recommendation industry is formed.

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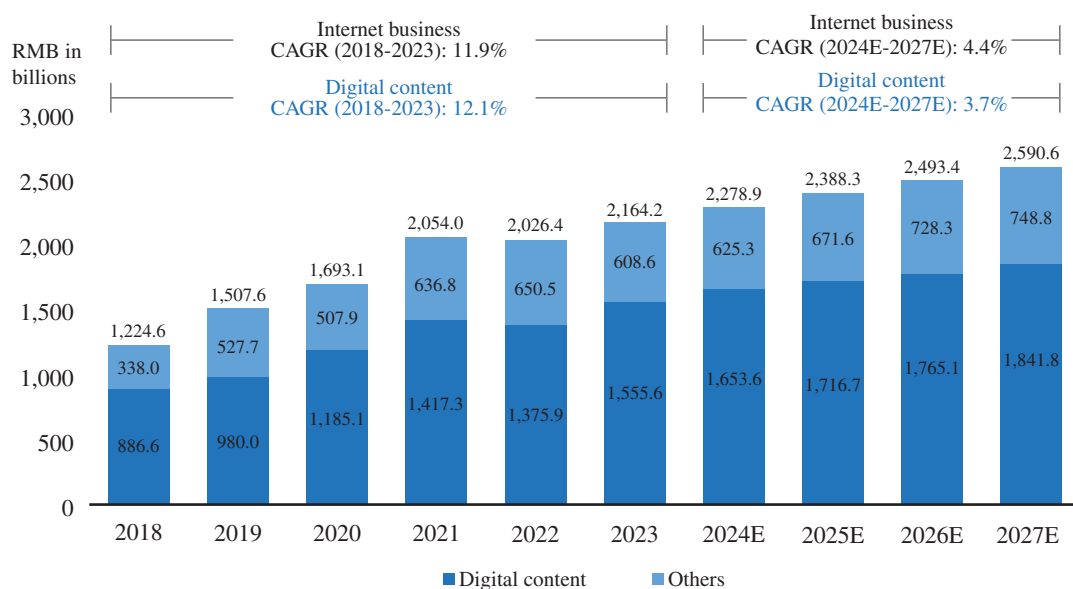
Application of Intelligent Recommendation

With the continuous progress of AI technology, intelligent recommendation technology has been widely adopted and used in the internet field, including digital content and digital services, which jointly contributed to the rapid development of China's intelligent recommendation industry. In terms of digital content, there is content with strong ability of dissemination that could expand its user base quickly. Meanwhile, for the content that is not highly promoted through internet traffic, it may not be able to maintain or expand its user exposure. Compared to the popularity of the former type of content, the latter type of content has difficulty in realizing monetization. Such dissemination attribute of digital content is not directly related to content quality, content price or qualification of content producers. Due to limited internet traffic and homogenization of user base on certain platforms, content that is not highly promoted through internet traffic has limited exposure to the users. Therefore, such content needs more diversified distribution channels to achieve monetization. Intelligent recommendation technology can tackle the dilemma for the content that is not highly promoted through internet traffic to reach target users precisely and effectively. Established in 2005, Easou was one of the first companies in China that were engaged in the R&D and application of intelligent recommendation technology.

Addressable Market Size

Our business is subject to the development of China's internet business industry, especially China's digital content industry. The application of intelligent recommendation of digital content provides us with a broad space for development. The size of China's internet business industry in terms of revenue increased from RMB1,224.6 billion in 2018 to RMB2,164.2 billion in 2023, and is expected to grow from RMB2,278.9 billion in 2024 to RMB2,590.6 billion in 2027, representing a CAGR of 4.4%. In particular, the size of China's digital content industry in terms of revenue increased from RMB886.6 billion in 2018 to RMB1,555.6 billion in 2023, and is expected to grow from RMB1,653.6 billion in 2024 to RMB1,841.8 billion in 2027, representing a CAGR of 3.7%. The following chart presents the historical and projected market sizes in terms of revenue of China's internet business industry and digital content industry from 2018 to 2027:

China's Internet Business Market Size⁽¹⁾, 2018-2027E



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Note:

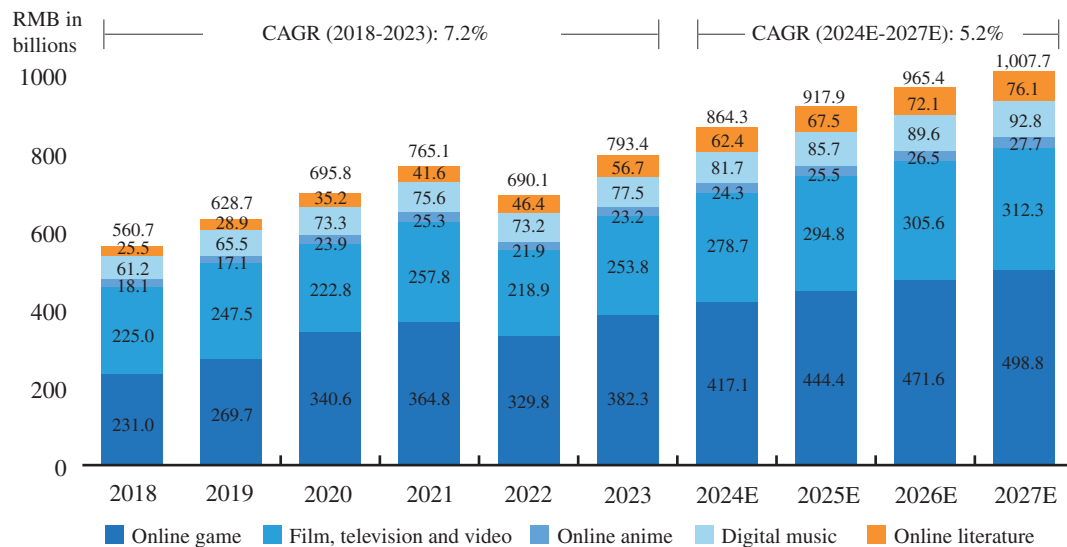
- (1) The market size of internet business includes the revenue of all internet companies. The market size of digital content includes the information service revenue of all internet companies.

Source: Analysys. The data is calculated by Analysys based on national statistics, corporate financial data and industry statistics.

We believe that our business is highly relevant to the development of China’s digital cultural entertainment industry, which is part of China’s digital content industry. With the rapid development of China’s cultural industry and the growth of Chinese users’ demand for cultural entertainment, the size of China’s digital cultural entertainment market increased from RMB560.7 billion in 2018 to RMB793.4 billion in 2023, representing a CAGR of 7.2%. Due to the continuing impact of the COVID-19 pandemic, geopolitical conflicts, overseas interest rate hikes and other factors, the global economic recovery is slower than expected. Therefore, the market size of China’s digital cultural entertainment industry decreased in 2022 compared with 2021. However, driven by factors such as the gradual recovery of China’s economy, the continuation of the online entertainment habits developed by users during the COVID-19 pandemic and carried forward into the post-COVID era, and the development of new technologies that broaden the consumption scenarios of entertainment, it is expected that the market size of China’s digital culture and entertainment industry will continue to increase from 2024 to 2027.

The following chart presents the historical and projected market size in terms of revenue of China’s digital culture and entertainment market from 2018 to 2027:

China’s Digital Culture and Entertainment Industry Market Size⁽¹⁾⁽²⁾, 2018-2027E



Notes:

- (1) The size of China’s digital culture and entertainment industry includes the size of market segments such as online games, film & television and video, online animation, digital music, and online literature.

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- (2) Online games market size includes the revenue from PC games, web games and mobile games, e-sports operating income and IP derivative income. Film & television and video market size includes the revenue of online video advertising, copyright and user payment, among others, as well as the box office of cinema movies, excluding TV stations. Online animation market size includes user payment, advertising revenue, and original copyright revenue. Digital music market size includes PC + mobile terminal output value, and revenue from telecom music value-added services, multimedia traffic and music platforms, among others. Online literature industry (online literature in a broad sense) size includes user payment, advertising revenue, copyright operation revenue, revenue from publishing and the sales of hardware, among others.

Source: China Audio-video and Digital Publishing Association, Analysys. The market size of the online literature market from 2018 to 2023 was sourced from China Audio-video and Digital Publishing Association, and other data were calculated by Analysys based on national statistics, corporate financial statistics and industry statistics.

Market Drivers of China's Intelligent Content Recommendation Industry

The tremendous upside of China's intelligent content recommendation industry is supported by the following key drivers:

- *National favorable policies:* In recent years, China introduced a series of policies favoring the intelligent recommendation-related technologies and digital content to accelerate the development of intelligent content recommendation industry. In terms of intelligent recommendation technology, the Outline of the 14th Five-Year Plan for National Economic and Social Development of China and the Vision 2035 (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) proposed to focus on key artificial intelligence algorithms, operating systems and other key areas, accelerate the recommendation-related basic theoretical foundation, basic algorithms and other R&D breakthroughs and iterative applications, and cultivate and develop artificial intelligence and big data industry. In terms of the application of intelligent recommendation technology in digital content areas, the National Strategic Emerging Industries Development Plan of 14th Five-Year Plan (《十四五國家戰略性新興產業發展規劃》) proposed to cultivate and develop the new generation of information technology industry and digital creativity industry.
- *Upgrade of technology infrastructure:* The continuous improvement of technological infrastructure provided a solid foundation for further development of intelligent recommendation technology. At the same time, the upgrade of technological infrastructure also provided users with more convenient conditions of network access and expanded user coverage and usage scenarios of intelligent recommendation technology.
- *Increased demand from 2B customers and 2C users:* The increased demand for intelligent recommendation technology from enterprises (2B customers) and individual users (2C users) was driving and is expected to underpin the continuing growth of China's intelligent content recommendation industry. In terms of 2B customers, the rapid development of internet led to substantial growth in information content, which resulted in an increasing demand by 2B customers to use intelligent recommendation technology to deliver information to users for specific business purposes. In terms of 2C users, diversified content carriers, such as online literature platforms, new media platforms and short videos platforms, gradually emerged to provide users with

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diversified digital content, prompting users' need for personalized digital content. In the meantime, the massive amount of information drove users to gradually shift from active access to information by searching to passive acceptance by receiving results from recommendation platforms. In addition, according to China Internet Network Information Center, as of December 31, 2023, the average weekly online time of internet users was 26.1 hours. Users' reliance on the internet remained stable, and the internet became an important channel for users to obtain information.

Entry Barriers to China's Intelligent Content Recommendation Industry

The main entry barriers of China's intelligent content recommendation industry include the following:

- *Barrier of technology:* As the AI technology continues to evolve, deep learning has been widely used in intelligent recommendation systems whose open-source framework characteristics determine the rapid iteration of technology. Enterprises in this industry need to focus on the R&D of cutting-edge technology to maintain competitive advantage. As one of the core technologies of intelligent recommendation system, deep learning requires continuous training for the learning network based on specific purposes of applications, in order to obtain ideal results that meet practical application requirements. Enterprises need to continuously adjust their models, algorithms and technologies to adapt to the changes in their business objectives. It is difficult for new participants to obtain the integration of advanced technologies and product applications in the short term.
- *Barrier of application experience:* A mature intelligent recommendation system requires long-term optimization and iteration in order to adapt to the actual application results and business objectives. A long learning curve is necessary for enterprises to optimize and iterate the recommendation system according to the actual application results and business objectives, so as to adopt the most suitable recommendation method for their own business scenarios to improve their operational efficiency.
- *Barrier of user resources:* The massive amount of personal user data and user behavior data constitute the basis of continuous optimization of the recommendation system for an industry participant, which enables it to improve the accuracy of intelligent recommendations and in turn increases the size of its user base, the level of user activity and user retention rate. The maintenance and development of the scale of user behavior data requires long-term investment and maintenance in technology, content and operation. It is difficult for new participants to obtain large-scale user base and data in a short time.

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- *Barrier of ecosystem:* Intelligent recommendation technology, application experience and users constitute the ecological barriers of intelligent content recommendation industry. Intelligent recommendation technology provides personalized recommendations based on user characteristics, and the continuously accumulated experience in the relevant Apps further improves the accuracy of recommendations. Meanwhile, users' diversified needs also force enterprises to continuously improve the accuracy of their own intelligent recommendation technology in order to attract and retain users. The new participants may not be able to improve the accuracy of their recommendations and achieve ecological advantages in a short period of time.

ONLINE LITERATURE INDUSTRY IN CHINA

Overview

Digitization of reading includes two key aspects, namely, the digitization of reading objects and the digitization of reading mediums. The former refers to the reading content presented in a digital way, such as e-books, online novels, electronic pictures, digital photos, blogs and web pages. The latter refers to the carriers of reading content, namely, an electronic device with screen display, such as computers, laptops, tablets, mobile phones and e-readers. For the purpose of this document, online literature refers to the online or offline reading of literary works through PC, cell phones, tablets and other devices connected to the internet, which only includes online literature works and electronic versions of publications.

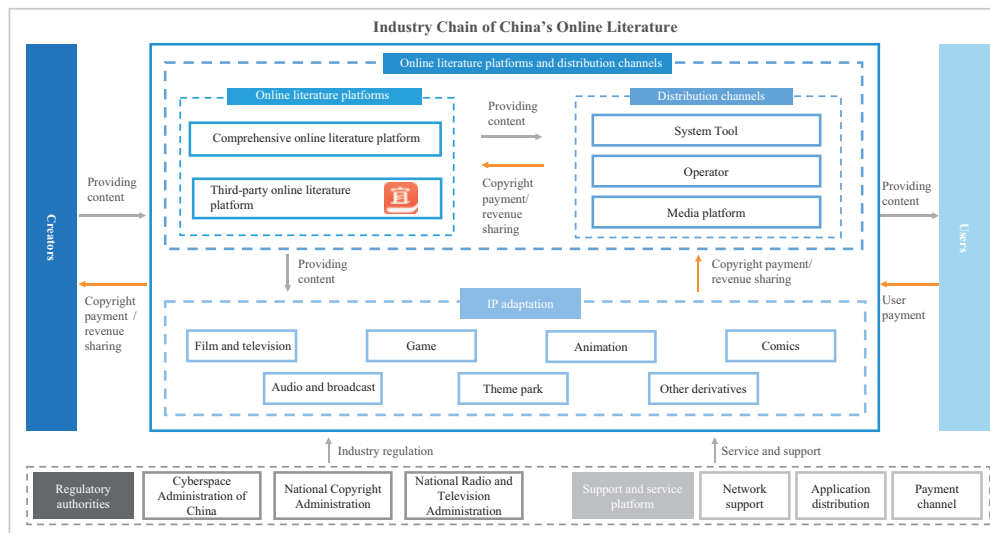
According to Analysys, in 2023, the number of China's online literature users reached approximately 540 million. During the same year, China's online literature industry entered into the stage of in-depth reading, with approximately 60.0% of the users spending at least two hours per day on online reading. With the popularization of smart devices and the development of mobile internet, users have gradually developed their habit of online reading.

The demand for cultural entertainment grew rapidly in China in the past five years. According to the National Bureau of Statistics, per capita expenditure on education, culture and entertainment in China was RMB2,904 in 2023, with a CAGR of 3.7% from 2019 to 2023. Per capita consumption expenditure of Chinese urban residents on education, culture and entertainment was RMB3,589 in 2023, representing a CAGR of 0.6% from 2019 to 2023. The per capita consumption expenditure of Chinese rural residents on education, culture and entertainment in 2023 was RMB1,951, representing a CAGR of 7.1% from 2019 to 2023. In terms of China's online literature users, in 2023, the number of the average MAU in low-tier regions and high-tier regions was approximately 603 million and 440 million, respectively. These collectively highlighted the substantial market potential in the low-tier regions. Following the development of China's online literature industry and a series of favorable policies for the development of its overseas online literature industry, the industry participants gradually sought overseas opportunities to further expand their business.

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Industry Chain of China's Online Literature Industry

The industry chain of China's online literature industry mainly comprises creators, content platforms, content distributors, IP adaptation producers and users. The chart below illustrates the online literature industry value chain of China:



Source: Analysys

- Creators provide original content to the content platforms.
- Content platforms primarily consist of comprehensive online literature platforms and third-party online literature platforms.
- The primary business model of content platforms is copyright operation, through which they recruit contracted writers to obtain the copyrights of their works or purchase copyrights from other content creators and then generate revenue from selling the relevant copyrights to content distribution channels or obtain the income from the users directly. Meanwhile, content platforms also provide value-added reading services to users to generate revenue. Content platforms normally cooperate with content distribution channels to distribute the literary content or sell the copyrights of the IP to allow adaptations derived thereof. In addition to Apps, content platforms offer a number of other reading products, such as H5 Pages and mini programs to expand their user base and enhance user stickiness to adapt to different scenarios.
 - Comprehensive online literature platforms that focus on original content are gradually introducing online literary content from other content providers and establishing cooperative relationship with them in copyright distribution, which illustrates that copyright distribution is gradually becoming more mainstream on online literature platforms.

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- o Third-party online literature platforms that provide the users with all online literature services from various content providers are able to maintain objective, impartial and neutral position when providing recommendation of online literary content and provide personalized services to users based on intelligent algorithm recommendation and other related technologies.

The comprehensive online literature platforms mainly provide users with original online literature content and services, while the third-party online literature platforms provide users with online literary content from multiple content providers as users are more willing to read books from different content providers rather than books from a single source. In other words, copyright distribution is gradually becoming the mainstream trend in the industry, and the neutrality and diversification of third-party online literature platforms will become an important differentiation advantage. The growth rate of third-party online literature platforms is expected to be higher than that of comprehensive online literature platforms in the future.

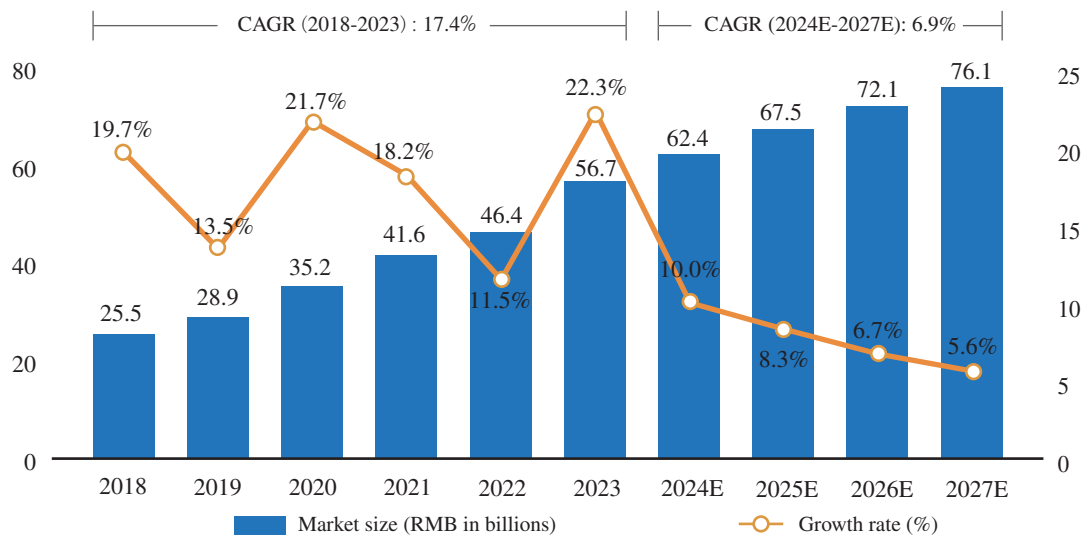
- Content distribution channels reach out to the users by distributing content through various system tools, operators' platforms and media platforms to expand the influence of the reading products.
- IP adaptation producers adapt literary content into a series of digital content derivatives, such as TV series, games, anime and comics, among others.
- Users receive literary content through reading with advertising or reading with paid services.

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Market Size

The market size of online literature increased from RMB25.5 billion in 2018 to RMB56.7 billion in 2023, representing a CAGR of 17.4%. This increase in online literature market size was primarily attributable to the expansion of reading with paid services and advertising revenue from reading with advertising. Affected by the development trend of the mobile internet industry and the competition for users' time and attention from live streaming and short video, revenue from IP operation will be an important driving force for the growth of China's online literature market in the near future. With the development of copyright protection and reading platforms which provide reading with advertising, the increasing user demand in digital cultural entertainment resulted from the COVID-19 pandemic and the growing popularity of the internet and mobile devices, revenue from online literature market will continue to increase. The size of the online literature market is expected to increase from RMB62.4 billion in 2024 to RMB76.1 billion in 2027, representing a CAGR of 6.9%. The following chart presents the historical and projected market size in terms of revenue of China's online literature market from 2018 to 2027:

China's Online Literature Market Size ⁽¹⁾, 2018-2027E



Note:

- (1) Online literature here is in a broad sense, including online literature (in a narrow sense), audiobooks and digital reading of traditional literature, among other things. It mainly calculates the income of Chinese online literature companies, including paid subscriptions, copyright operations, advertising and hardware, among other things.

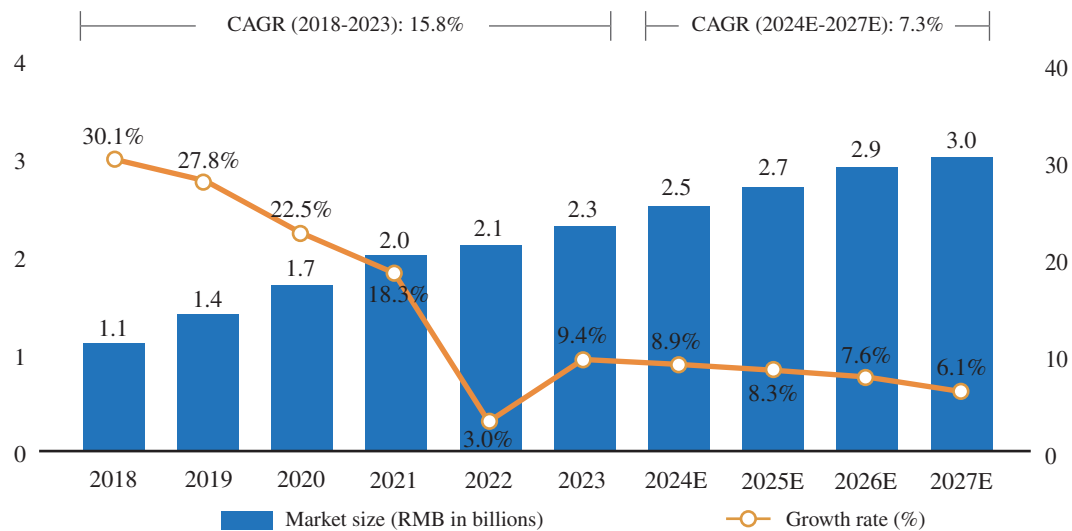
Source: China Audio-video and Digital Publishing Association, Analysys. The market size of online literature industry from 2018 to 2023 was sourced from China Audio-video and Digital Publishing Association, and other data were calculated by Analysys based on national statistics, corporate financial statistics and industry statistics.

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The market size of China's third-party online literature industry is also increasing. From 2018 to 2023, the market size of China's third-party online literature industry in terms of revenue increased from RMB1.1 billion to RMB2.3 billion, representing a CAGR of 15.8%. Driven by the increasing user demand for online literature, the growing demand for copyright distribution by the online literature platforms and enhanced copyright regulations, China's third-party online literature industry is expected to continue to grow from RMB2.5 billion in 2024 to RMB3.0 billion in 2027, representing a CAGR of 7.3%. Following the development of China's online literature industry, users' reading needs have become more diversified and personalized. Third-party online literature platforms offering literary content from different sources can effectively capture users' reading needs. Therefore, the market size of third-party online literature industry is expected to continue to grow at a higher CAGR than that of the overall online literature market in the next four years.

The following chart presents the historical and projected market size of China's third-party online literature industry in terms of revenue from 2018 to 2027:

China's Third-party Online Literature Market Size⁽¹⁾, 2018-2027E



Note:

(1) Market size includes user fees and advertising revenue, excluding reader hardware sales.

Source: Analysys. The data were calculated by Analysys based on national statistics, corporate financial statistics and industry statistics.

Market Drivers of China's Online Literature Industry

The upside of China's online literature industry is supported by the following key drivers:

- Enhanced copyright protection:** In recent years, China has continued its efforts to improve its copyright-related policies and copyright regulations. The newly revised Copyright Law of China (《中華人民共和國著作權法》) was implemented in June 2021,

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which significantly increased the cost of infringement violations of copyrights and intensified the crackdown on infringement. It also expanded the scope of copyright protection and strengthened copyright protection for content creators. At the same time, many enterprises have strengthened their copyright protection. The improvement of copyright supervision will motivate content creators to continue their creation and provide more content to the industry, which will in turn attract more users.

- *Ongoing free-to-read industry trend and expansion of reading with advertising:* Since 2018, reading with advertising have started to emerge, which provided the users with reading with advertising and charged advertising customers for the provision of advertising services. Reading with advertising have brought additional users to the online literature industry and gradually cultivated their habits of online reading and copyright awareness. Reading with advertising has also become the mainstream model and the ongoing industry trend in China's online literature market, which is evidenced by the higher growth rate and broader acceptance of reading with advertising in terms of user scale than that of reading with paid services.
- *Increased demand in online entertainment:* During the COVID-19 pandemic, with the offline activities subject to a number of social restrictions, users' online entertainment habits, such as online literature, games and videos, have gradually developed. In the post-COVID era, users have continued to maintain their online entertainment habits. Furthermore, due to the development of We-media, the trend of nationwide creation continues to strengthen, which creates more diverse works that provide significant emotional value for users. In the meantime, there has been a deepening trend of high-quality content, and the IP adaptation industry of online literature, games and videos continues to develop, further unlocking the inherent value of IP, which contributed to the retention of core users and the attraction of cross-border users. These new development characteristics have accumulated strong momentum for the sustained development of online entertainment.

In terms of online entertainment, according to Analysys Qianfan, the average MAU of online literature industry in China from 2018 to 2023 were 216 million, 241 million, 300 million, 307 million, 297 million and 297 million respectively, and the average MAU of online literature industry in China remained relatively stable after the PRC government eased COVID-19 control measures. According to Analysys Qianfan, the average MAU of short videos industry in China from 2018 to 2023 were 552 million, 700 million, 866 million, 883 million, 895 million and 964 million, respectively, and the average MAU of short videos industry in China continued to grow.

In terms of online consumption, according to the National Bureau of Statistics, the national online retail sales of China from 2018 to 2023 were RMB9.0 trillion, RMB10.6 trillion, RMB11.8 trillion, RMB13.1 trillion, RMB13.8 trillion and RMB15.4 trillion, respectively. Accordingly, the users' online consumption habits have been gradually developed and are expected to be maintained.

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Meanwhile, emerging technologies such as 5G, VR, AR and cloud computing are driving the emergence of the new forms of entertainment, such as cloud concerts, cloud music festivals and cloud theaters, which also improved the interactive experiences for users and further increased the length of time they spent on online entertainment content.

Entry Barriers to China's Online Literature Industry

The main entry barriers of China's online literature industry include the following:

- *Barrier of technology:* Online literature platform involve massive technologies in the content development, production, recommendation and other aspects. The leadership in technologies determines the service quality of each platform and its operational efficiency. In terms of content recommendation, based on the user behavior data accumulated in daily operations, enterprises need to use continuously optimized intelligent recommendation technologies to recommend content to users and meet their personalized reading needs. In terms of system functions, enterprises must strengthen technical R&D capabilities to improve system stability, while enriching the diversity of fonts, background colors and other functions and features. The entry barrier to China's online literature industry has resulted in the phenomena of the homogeneity of reading products, which require online literature participants to continuously strengthen technological innovation of platform development and content operation, and provide users with the advanced reading experience to acquire and retain them.
- *Barrier of content:* China's online literature industry is gradually mature and the competition pattern becomes relatively stable. Facing intense competition for high-quality content resources, enterprises are required to improve user stickiness, user willingness to pay and reduce customer acquisition costs by offering high-quality and diversified content. At the same time, the copyright of online literature content is the basis of IP development, which helps to further expand the influence and enhance the commercial value of literary works. In addition, considering China's improving regulatory environment for copyright protection, the crackdown on pirated content continues to increase, which will further enhance public awareness and commercial value of literary creation. It is difficult for new industry participants to quickly have massive or high-quality content in a short period of time.
- *Barrier of user resources:* User resources are critical to online literature enterprises, including user acquisition, conversion, retention and activation, which require these enterprises to invest in content and technical resources in the long term and to continuously improve their products and services. Due to the differences in content and varied usage of products, users are less willing to switch products after their habits are formed. In addition, since the online literature industry has gradually matured, the growth rate of user acquisition has slowed down while the cost of user acquisition has increased. It is difficult for new industry participants to quickly form a large user base in a short period of time.

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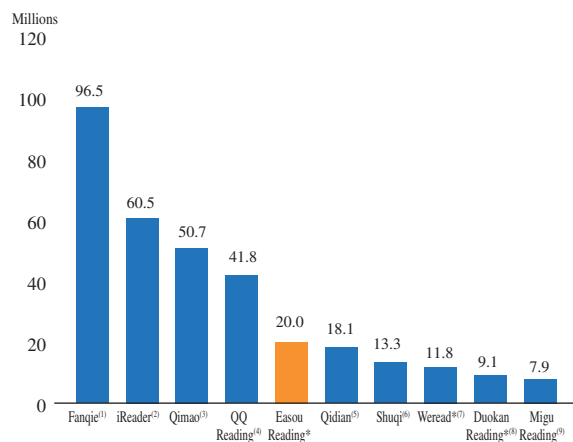
Competitive Landscape

The core of the AI-based recommendation technology lies in the analysis of multidimensional data such as user profile (e.g., age, gender and region), reading behavior (e.g., reading history and reading duration) and interactive behavior (e.g., liking, commenting and sharing). Personalized e-book or content recommendation lists are subsequently generated based on intelligent algorithms to provide users with a more personalized, intelligent and immersive reading experience, while increasing the commercial value of the online reading platform.

Currently, a number of market participants use AI-based recommendation technology on their online reading platforms. However, due to the different market positioning, understanding of user needs and technical implementation strategies, each online reading platform employs different algorithmic recommendation systems (e.g., content-based recommendation, collaborative filtering recommendation and hybrid recommendation) or business strategic focus. For example, certain platforms may have their own contracted authors and tend to recommend their proprietary content to users. As a third-party online literature platform, Easou Reading App obtains literary content from third-party content providers and makes fair, accurate and personalized recommendations based on users' reading preferences. In addition, our Group has been developing AI-based recommendation technology and applying intelligent recommendation engine to multiple content scenarios, such as reading, games and music, which can further optimize the recommendation algorithm through the utilization of cross-scenario user data.

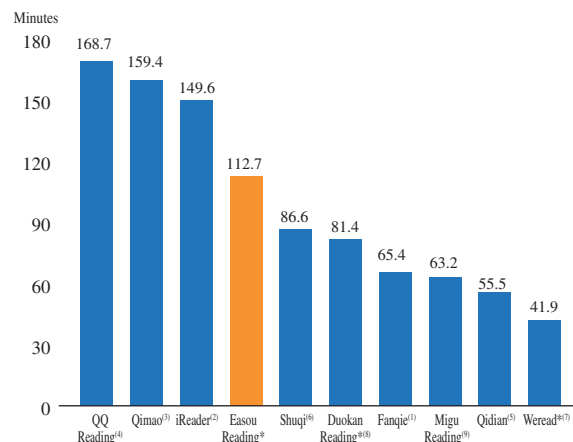
According to Analysys, Easou Reading App had an average MAU of approximately 20.0 million in 2023, ranking fifth among all online literature Apps in China's online literature market in terms of average MAU. From 2018 to 2023, Easou Reading App also ranked among top five in terms of average MAU in China's online literature market. Among the top 10 Apps in terms of average MAU in China's online literature market in 2023, Easou Reading App had average daily usage time of 112.7 minutes in 2023, ranking fourth in terms of per capita daily usage time. The charts below illustrate the market ranking in terms of average MAU and per capita daily App usage time in the online literature industry in China in 2023:

Average Monthly Active Users of Top 10 APP in China's Online Literature Industry, 2023



Source: The data of the average monthly active users of Easou Reading App comes from Easou, and other data comes from Analysys Qianfan.

Per Capita Daily Usage Time of Top 10 APP in Terms of Average MAU in China's Online Literature Industry, 2023



Source: The data of per capita daily usage time comes from Analysys Qianfan.

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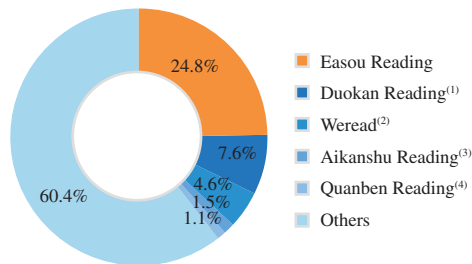
- * Indicates that the APP belongs to a third-party online literature platform.
 - ** The number of average monthly active users of the top four Apps are relatively larger than Easou Reading App, mainly because the parent companies of these Apps are well-known large internet companies, which have strong advantages in internet traffic. They can acquire more users with their online literature services through synergies with their other business lines and platforms. Due to the advantages in internet traffic, the top four Apps have broad user base with high loyalty and therefore, their average monthly active users and per capita daily usage time on these Apps are relatively high.
- (1) Fanqie (番茄免費小說), an APP developed by ByteDance, which was established in 2012 and whose main business includes short videos, news information and digital marketing, among others.
 - (2) iReader (掌閱), a reading APP developed by iReader Technology, which was established in 2008 and listed in mainland China and focuses on online literature and value-added services.
 - (3) Qimao (七貓免費小說), an APP developed by Shanghai Qimao Culture & Media Co. Ltd. (上海七貓文化傳媒有限公司), which was established in 2017 and mainly engaged in business services. This company is controlled by Baidu which was established in 2000 and listed in the United States and Hong Kong, whose main business includes digital marketing, artificial intelligence and video.
 - (4) QQ Reading (QQ閱讀), an APP developed by China Literature, which was established in 2015 and listed in Hong Kong and whose main business includes online literature, IP development and operation. The APP is a comprehensive online reading platform.
 - (5) Qidian (起點讀書), an APP developed by China Literature, which was established in 2015 and listed in Hong Kong and whose main business includes online literature, IP development and operation. The users of the APP are mainly male.
 - (6) Shuqi (書旗免費小說), an APP developed by Alibaba, which was established in 1999 and listed in the United States and Hong Kong and whose main business includes internet e-commerce, cloud computing, logistics, local life service, digital media and entertainment.
 - (7) Wered (微信讀書), an APP developed by Tencent, which was established in 1998 and listed in Hong Kong and whose main business includes games, digital marketing, financial technology and services. The book category of the APP is mainly published books.
 - (8) Duokan (多看閱讀), a reading APP developed by Xiaomi, which was founded in 2010 and listed in Hong Kong and whose main business is mobile phones, intelligent hardware and internet of things.
 - (9) Migu (咪咕閱讀), a reading APP developed by China Mobile, which was established in 2000 and was one of the three major communication operators in China.

Moreover, according to Analysys, Easou Reading App ranked first in China's third-party online literature platform market in 2023 and accounted for 24.8% of the online market share in terms of revenue, which exceeded the total market share of the second to fifth largest platforms in 2023. With approximately 20.0 million of average MAU in 2023, Easou Reading App ranked first among all third-party online literature platforms in China in terms of average MAU.

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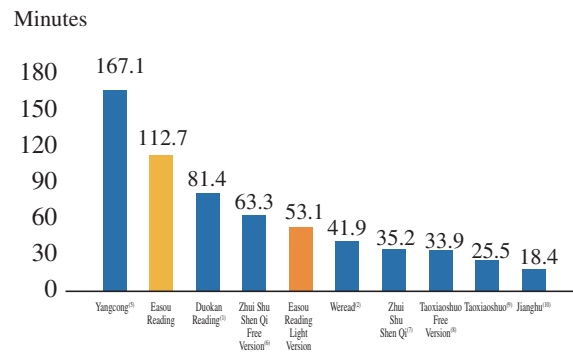
The charts below illustrate the market share of third-party online literature platforms in China in 2023 in terms of revenue and average MAU of third-party online literature industry in China in 2023:

**Market Share of
Third-party Online Literature
Platforms in China, 2023***



Source: Analysys. The data is calculated by Analysys based on national statistics, corporate financial data and industry statistics.

**Per Capita Daily Usage Time of Top 10 APP
in Terms of Average MAU in
China's Third-party Reading Industry, 2023**



Source: Easou, Analysys Qianfan. The data of average monthly active users of Easou Reading App and Easou Reading Light version come from Easou, and other data comes from Analysys Qianfan.

Notes:

* The market size of China's third-party online literature platforms in terms of revenue was approximately RMB2.25 billion in 2023. According to Analysys, it is common for the participants in China's online literature market to seek for and achieve multi-monetization of the user traffic on their online reading platforms either by (i) providing other types of digital content on their online reading platforms; or (ii) utilizing user behavior data gathered from their online reading platforms to optimize content distribution on third-party channels or their other digital content Apps. Therefore, the market size of China's third-party online literature platforms in terms of revenue not only includes the revenue generated directly from online reading platform services, but also includes the revenue generated from other digital content scenario applications using the user traffic of or user behavior data gathered from online reading platforms. However, it does not include the revenue that is not directly relevant to (i) online reading platform services; and (ii) the utilization of user traffic on these platforms in other digital content scenario applications in connection with the calculation of revenue of the industry participants.

- (1) Duokan (多看閱讀), a reading APP developed by Xiaomi, which was founded in 2010 and listed in Hong Kong and whose main business is mobile phones, intelligent hardware and internet of things.
- (2) Weread (微信閱讀), an APP developed by Tencent, which was established in 1998 and listed in Hong Kong and whose main business includes games, digital marketing, financial technology and services. The book category of the APP is mainly published books.
- (3) Aikanshu (愛看書免費小說), a reading APP developed by Beijing Chinese Wanvi Technology Co., Ltd. (北京中文萬維科技有限公司), which was established in 2015 and focuses on reading with advertising.
- (4) Quanben (全本小说), a reading APP developed by Beijing Wubutianxia Technology Co., Ltd. (北京五步天下科技有限公司), which was established in 2014 and whose main business is technology promotion and application service.
- (5) Yangcong, a reading APP developed by Beijing Jidong Creative Technology Co., Ltd. (北京極動創想科技有限公司), which was founded in 2016 and whose main business is digital reading services that include advertisements.

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- (6) Zhui Shu Shen Qi (Free Version) (追書神器免費版), a reading APP developed by Shanghai Yuanju Internet Technology Co., Ltd. (上海元聚網絡科技有限公司), which was established in 2012 and whose main business is games, comics and online literature, among others.
- (7) Zhui Shu Shen Qi (追書神器), a reading APP (paid version) developed by Shanghai Yuanju Internet Technology Co., Ltd. (上海元聚網絡科技有限公司), which was established in 2012 whose main business is games, comics and online literature, among others.
- (8) Taoxiaoshuo (Free Version) (淘小說免費版), a reading APP developed by Beijing Taoyuewenhua Technology Co., Ltd., which was established in 2017 and whose main business is internet and internet-related services.
- (8) Sougou Reading (搜狗閱讀), a reading APP developed by Sougou, which was established in 2006 and whose main business is search and digital marketing.
- (9) Taoxiaoshuo (淘小說), a reading APP developed by Beijing Taoyuewenhua Technology Co., Ltd. (北京淘閱文化科技有限公司), which was established in 2017 and whose main business is technology promotion and application service.
- (10) Jianghu, a reading APP developed by Hangzhou Zhangdu Cloud Technology Co., Ltd. (杭州掌讀雲科技有限公司), which was established in 2019 and whose main business is software and information technology services.

The accurate and personalized online reading platform services provided by Easou Reading App Series have greatly improved the reading experience of users and promoted Easou Reading App Series to gain more recognition, which allowed Easou to become one of the mainstream digital copyright aggregation and distribution platforms in China with a large user base and high level of user engagement.

Comparison of Reading with Advertising and Reading with Paid Services

Under reading with advertising, content platforms generate revenue mainly through advertising activities by charging advertising fee from advertising customers. As users do not need to pay for their reading, this type of services has a wider user acceptance compared to reading with paid services. Therefore, since 2018, the scale of user base of reading with advertising has rapidly grown.

Under reading with paid services, content platforms mainly generate revenue from users' payments and income from copyright operation. In the past three years, due to the impact of reading with advertising, the growth rate of reading with paid services users had slowed down.

Reading with paid services is a traditional service model in the online literature market. However, it is getting more difficult for the online reading platforms to continuously attract new users and expand their user base due to the payment barrier to use online literary resources. Thus, China's online reading platforms started to rely on the provision of reading with advertising to attract users, expand user base and utilize user traffic through the advertising revenue of advertisers to monetize. Recently, some new market entrants focusing on reading with advertising have quickly attracted users and expanded their market share. Accordingly, the leading companies in the industry, such as iReader (the operator of De Jian and Qi Du Free Novel), who have been dedicated to reading with paid services for quite some time, have launched free reading platforms in recent years and continued to increase investments in their reading with advertising business.

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While reading with advertising has been growing rapidly in recent years, it faces the challenges in obtaining stable revenue. Currently, revenue generated from advertising activities is still the main revenue contributor of reading with advertising. However, if revenue from reading with advertising cannot cover user acquisition costs, content platforms will be required to reduce its investments in developing such type of services, which could lead to a loss of users. Therefore, reading platforms which provide reading with advertising have been actively exploring other types of services in addition to embedding advertisements to diversify their revenue streams. According to Analysys, the competition between the Apps which offer reading with advertising is highly intense.

The table below sets forth a comparison of reading with advertising and reading with paid services:

Comparison of the Types of Services Offered by Online Literature Companies in China

Item	Reading with Advertising	Reading with Paid Services
Definition	Whether online literary content on a platform requires payment to be read. If yes, it is a reading platform which provides reading with paid services. If no, it is a reading platform which provides reading with advertising.	
Source of revenue	Mainly advertising revenue	Multiple sources, such as users' payment and IP operation
Digital content characteristics	Generally less original and creative	Rich in genres, diversified in original content, high literature attainment
User characteristics	Mainly users from lower-tier cities in China with low willingness to pay with a wide age range	Mainly young users in the first-tier, new first-tier and second-tier cities in China with strong consumption capacity, who are highly loyal to the online literature products
Development history	In 2018, reading with advertising was firstly launched and this type of services arose. The development time of this model is relatively short and the user growth rate is rapid	In 2003, reading with paid services was firstly launched. Subsequently, this type of services has been mature, and the user growth rate is steady
Direction	Cultivate users' awareness of copyright protection and gradually transform the users to reading with paid services	Develop towards a combination of reading with advertising and reading with paid services. The majority of online literary content is free. Some fine content needs to be paid, which will gradually increase in the future

Source: Analysys

Future Outlook

As new technologies drive the industry upgrades, new reading models and scenarios will continue to emerge to improve users' overall reading experience. The application of intelligent recommendation technology in online literature industry continues to evolve to meet users' demand for personalized reading. In China's online literature industry, the competition between reading platforms which provide reading with advertising and those which provide reading with paid services is relatively intense. Recently, more online literature platforms have merged the activities of reading with advertising and paid services. In addition, large enterprises have introduced new reading products which provide reading with advertising and reading with paid services to the

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market to attract new users and retain existing users. As China's online literature industry continues to expand, the market influence of online literature works is increasing, and exporting activities of these popular works to overseas markets start to emerge.

Following the upgrades of AI technology, the improvement in data collection, analysis and processing capability of intelligent recommendation system will enable industry players to provide more comprehensive reading models with a combination of virtual and realistic scenarios and offer more precise recommendations to users. As the technology relating to the metaverse continues to advance, the integration of online literature platforms with the metaverse provides ample development space for the participants in the online literature industry.

DIGITAL MARKETING INDUSTRY IN CHINA

Overview

Digital marketing refers to business advertisement that directly or indirectly promotes goods or provides services through internet media, such as websites, webpages, H5 Pages and mobile Apps in the form of text, picture, audio and video, among other formats. Compared with traditional marketing, digital marketing has the advantage in accurately identifying target user groups, providing comprehensive interaction and improving conversion rate of advertisement. Efficient digital marketing enhances the willingness of advertising customers to place advertisements, which leads to continuous increase of advertising penetration rate and rapid market development.

Market Size

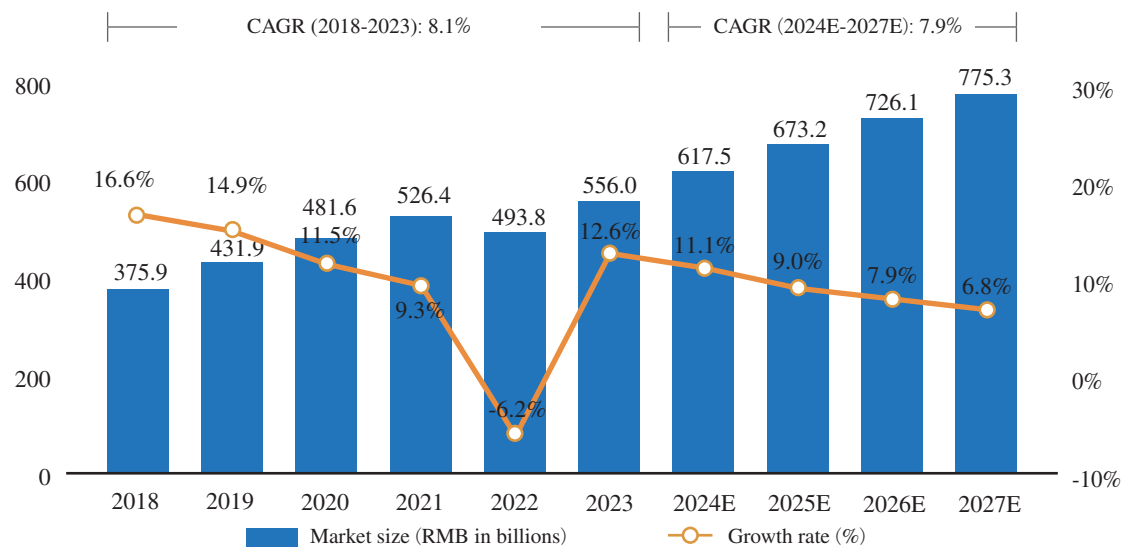
The market size of China's digital marketing industry increased from RMB375.9 billion in 2018 to RMB556.0 billion in terms of revenue in 2023, representing a CAGR of 8.1%. Due to the continuing impact of the COVID-19 pandemic, geopolitical conflicts, overseas interest rate hikes and other factors, the global economic recovery has been slower than expected. In China, the COVID-19 pandemic had negative impact in China's domestic economic development in 2022. This led to a slowdown in the consumption growth of Chinese residents and ultimately affected the budgets of our advertising customers, which in turn adversely affected the growth of China's digital marketing market. At the same time, advertisers in certain industries of the digital marketing market, such as the education industry and gaming industry, have tightened their advertising budgets due to more stringent regulatory policies in China, which affected the overall placement scale of advertisements in China's digital marketing industry. Therefore, the market size of China's digital marketing market decreased in 2022 compared with 2021. In 2023, the relaxation of COVID-19 pandemic control measures and the introduction of policies to promote consumption by the PRC government have stimulated consumer demand and increased the willingness of advertisers to place advertisements. The significant increase of the issuance of ISBN in the China's online games industry in 2023 compared to 2022 also facilitated the recovery and growth of advertising expenditures of the game operators. In addition, the progress of certain emerging technologies in recent years, such as 5G and AI, continued to encourage the innovation of digital marketing solutions and improve the efficiency of advertising. Specifically, 5G technology enables data transmission to be processed at a higher speed, and AI technology realizes automatic processing and analysis of massive data in a short period of time. The combination of

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5G and AI technologies can achieve real-time collection, analysis and processing of large amounts of data. Such technologies can help enterprises more accurately identify target users and quickly formulate marketing strategies, thereby improving their marketing efficiency and effectiveness. Therefore, the demand for digital marketing and the market size of the digital marketing industry increased in 2023. According to Analysys, China's digital marketing industry has reached a relatively mature stage. In terms of revenue, the market size of China's digital marketing industry is expected to grow from RMB617.5 billion in 2024 to RMB775.3 billion in 2027, representing a CAGR of 7.9%.

The diagram below illustrates the historical and projected size of the digital marketing market in terms of revenue in China from 2018 to 2027:

China's Digital Marketing Market Size⁽¹⁾, 2018-2027E



Note:

- (1) Only effect advertisement are included, while other advertisements such as brand advertisements and self-media soft advertisements are not included.

Source: Analysys. The data is calculated by Analysys based on national statistics, corporate financial statistics and industry statistics.

Market Drivers of China's Digital Marketing Industry

The upside of China's digital marketing industry is supported by the following key drivers:

- *Users' well-developed online consumption habits and 2B customers' growing digital marketing demand:* Since the COVID-19 pandemic, users have gradually formed online consumption habits. Due to travel restrictions and the closure of offline retail stores during the pandemic, users have turned to online shopping to meet their needs. The increase in user demand in turn has stimulated the suppliers to improve the online

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supply chain system, which could continuously support the development of online shopping in the post-COVID era. In addition, the new formats and models of online consumption, such as live streaming e-commerce, short video e-commerce and social e-commerce, have continuously expanded the scenarios and territorial boundaries of online consumption. Platform enterprises also expanded into new fields, which promoted the digital transformation of upstream and downstream enterprises, built a smooth online industrial product circulation market and fostered the sustainable and healthy development of the online shopping industry.

For the digital marketing market, the formation and deepening of user online consumption habits have directly expanded the potential target audience of digital marketing. Brand owners and enterprises have begun to accelerate the pace of their digital transformation to better adapt to and grasp the development opportunities of the online market. Correspondingly, they have increased the investment budget of digital marketing, further promoting the expansion and growth of the entire digital marketing market.

- *Increased efficiency of digital marketing services facilitated by improving new technologies:* Emerging technologies such as AI, intelligent recommendation and blockchain continue to improve the efficiency of digital marketing services and promote the development of the industry. The application of AI, intelligent recommendation and other technologies increases the efficiency of advertising content creation, improves the monitoring accuracy of advertising effects and the accuracy of targeted recommendation, and ultimately enhances the efficiency of conversion rate of advertisement. The application of blockchain technology enables the advertising circulation process more open and transparent, reduces obstacles between 2B customers and platforms, and ensures the healthy and orderly development of the industry.

Competitive Landscape

Based on the type of platform business, digital marketing enterprises can be divided into comprehensive digital marketing enterprises and vertical digital marketing enterprises. Comprehensive digital marketing enterprises have the advantages of large user traffic and wide user base reached by advertisements. These platforms are favored by the advertising customers who target at a wide user base. These enterprises primarily include Alibaba, ByteDance and Tencent. Vertical digital marketing platforms are deeply involved in subdivided industries and have a more concentrated user base, which have the advantage in reaching the target user base precisely and contribute to higher efficiency of advisement placement, and are favored by the advertising customers who target at a specific user base. We are one of the vertical marketing platforms. In 2023, the top five enterprises in China's digital marketing industry in terms of revenue were ByteDance, Alibaba, Tencent, Baidu and Kwai, whose combined market share was near 80%, according to Analysys. The remainder of the market share consisted of more than 150 digital marketing enterprises in China with annual advertising revenue exceeding RMB100 million, including our Group. We believe we can differentiate ourselves from other industry peers by providing advertising customers with accurate, efficient and personalized digital marketing

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solutions in the cooperative traffic ecosystem. Overall, China's digital marketing industry consists of a few market leaders with scattered long tail players, and the competition landscape is relatively stable.

In the digital marketing industry, digital marketing service providers, as intermediaries, have become one of the key links in the industry chain. Digital marketing service providers mainly include advertising agents and advertising networks. Advertising agents provide creative planning, media strategy, media resource procurement, marketing effect evaluation and other services to clients according to their marketing needs. The major participants primarily include, Mobvista (1860 HK), Joy Spreader (6988 HK) and our Group, among others. In particular, we are one of the earliest to use intelligent recommendation system in digital marketing, placing digital marketing both through third-party media platforms and on our own platform. Advertising alliance primarily includes advertising organizations that gather small- and medium-sized developers to form an alliance to help them sell their advertising places, and advertisers pay advertising fees to alliance members according to the actual effect of digital marketing. Digital marketing service providers play an indispensable role in the industry chain, and their bargaining power in the industry chain continues to increase. At the same time, digital marketing service providers gradually accumulate abundant advertising data (such as user profile) and advanced advertising technology in the service process, and constantly improve the advertising effect. Therefore, more advertisers choose digital marketing service providers to deliver and manage their advertisements.

Future Outlook

With the continuous development of intelligent recommendation technology, intelligent advertisement recommendation system will provide more accurate recommendations for users and increase the efficiency and quality of advertisement placements. Digital marketing integrates advertising information into digital content to achieve the overall presentation of advertising and content products. Digital marketing based on high-quality content will be an important foundation for long-term marketing success. In addition, content, advertisements, users, and usage scenarios will be more accurately matched and further integrated through the utilization of intelligent recommendation technologies, which will further amplify the value of advertisements and provide more direct and personalized advertisements for users.

We expect that the development of digital marketing industry in China will present the following trends:

- *Further deepening of technology application.* In terms of advertisement placement, technologies such as AI and big data are becoming more sophisticated. The improving ability to process data mining of user behavior by the digital marketing enterprises enhances the accuracy of advertisement placement, increases the click-through rate, and consequently improves the efficiency of digital marketing services. In terms of user experience, the development of VR, AR and other technologies provides users with more advanced advertising content, improves user experience, and increases user acceptance of digital marketing. In the future, the application of technology in digital marketing will continue to deepen, which contributes to bringing more efficient and higher quality advertising content to the market and promoting the sustainable and steady development of the industry.

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- *Continuing development towards standardization.* The digital marketing industry will be more standardized following a series of laws and regulations, such as China Mobile Internet Advertising Standards (《中國移動互聯網廣告標準》) and Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), which provide uniform standards on terminologies and technologies used in connection with digital marketing, regulate the display forms of digital marketing and thereby promote the standardized and rapid development of the digital marketing industry.
- *Quality content as the core competitiveness of digital marketing.* Media formats are becoming increasingly diversified, such as literary content, live streaming and short video, which attract users' attention to different content and require higher quality of the information displayed in each media format. Digital marketing is gradually shifting to content marketing, which organically integrates advertising information into corresponding products to achieve the overall presentation of advertising and content-related products, resulting in the effect of "advertising as content". Digital marketing based on high-quality content will be an important basis for the success of marketing in the long run.

ONLINE GAMES INDUSTRY IN CHINA

Overview

Online game is a type of electronic game designed for multiple individual players to obtain entertainment, leisure, communication and virtual achievements. Online games typically possess the following characteristics: (i) the internet and mobile network as the transmission medium; (ii) the game operator's server and user computers, including smart mobile devices, as the processing terminal; and (iii) the game client-side software as the information interaction window. The genres of online games are diversified, including CCG, MMORPG, SLG, LTG and female-oriented games. With respect to SLGs, the relatively high barrier to entry for users leads to higher user migration costs, which is conducive to prolonging user loyalty. Therefore, SLGs usually have a longer life cycle, which typically ranges from three to five years. In addition, although user acquisition cost of SLGs at a preliminary stage (generally more than RMB1,000 per person) is generally higher than that of other types of online games, SLGs tend to have stronger financial performance once the core user base is established. With respect to female-oriented games, its popularity began to increase in 2018 and the number of such game users in China reached over 300 million in 2023. According to Analysys, the costs of developing female-oriented game products are normally below RMB100,000, which tend to be lower than male-oriented game products. In comparison, the costs of developing SLGs are generally more than RMB10.0 million. Further, the capability of female game users to pay for online games has been stronger than anticipated, according to Analysys.

The industry chain of online games market mainly contains following parties:

- *IP holders:* Provide online game developers with IP licenses, and thus, support the game development in terms of image, character, picture, plot and other elements.

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- *Developers:* Produce online game content based on the IP licenses acquired or on the original content with their proprietary intelligence and creativity. They are primarily responsible for game content creation, product development, game updates and technical support. Some developers publish and operate their games independently, while others license their game products to publishers, who are in charge of publishing and operating the games.
- *Publishers:* Promote and operate online games by distributing their products to their proprietary channels or external channels they collaborate with. Publishers are primarily responsible for analyzing game user behavior characteristics (including game type preference and willingness to pay, among other things), and continuously optimizing game products based on user feedback to achieve refined operation.
- *Channels:* Provide online game users with game download channels and provide game publishers with promotion, operation, payment and other services. These channels primarily include official stores, third-party public platforms, mobile hardware manufacturers' Apps stores and social network platforms.
- *Users:* Users are online game players, who obtain game information from various channels, and download and play games that meet their preferences and needs. Users are regarded as the core value of the game industry who contribute in-game purchase revenue and advertising income to the developers, publishers and channels. Users can also promote game products through their own social media, and their feedback are important to the game companies who develop, publish and operate game products and update game content.

In the industry chain of online games market, an enterprise can play a single role or different roles at the same time, such as acting as an IP holder, developer and publisher at the same time. At present, some large online game enterprises have gradually formed the business system of integrated R&D and operation (i.e., game companies have the whole process business capability of developing, publishing, distribution and operation). Such game developers include Tencent, NetEase, CMGE (中手遊) and Perfect World, among others. These enterprises with integrated development and operation also provide game distribution services for many game developers in the operation process. In addition, there are many small to medium enterprises that play only a single role in the industry chain. For example, we focus on online games publishing only.

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Online game industry is highly regulated in China and its development is greatly influenced by national and industry policies. The major events of regulatory changes since 2018 are as follows: (i) in March 2018, the Central Committee of the Communist Party of China issued the Plan for Deepening the Institutional Reform of the Party and State (《深化黨和國家機構改革方案》) and the NPC promulgated the Decision of the First Session of the Thirteenth National People's Congress on the State Council Institutional Reform Proposal (《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》)(collectively, the "Institutional Reform Plans"), which adjusted the press and publication management responsibilities of government authorities to strengthen the management of publishing activities; (ii) in October 2019, the Notice on Preventing Minor's Addiction to Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) was issued, which restricted minors' game usage time, game consumption and real-name registration, and the supervision of the game industry became stricter; (iii) in December 2020, Notice of Age Labeling of Online Games (《網絡遊戲適齡提示》) was issued, which made it clear that age tips must be placed in a prominent positions on the interface of game products to highlight the visibility of the logos in game products; (iv) in August 2021, the Notice of Further Imposing Strict Administrative Measures on Preventing Minors from Indulging in Online Games (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》) was issued, which strictly limited the time for minors to play online games. In September 2021, the Propaganda Department of the Central Committee of the Communist Party of China and National Press and Publication Administration conducted interviews with key online game companies and platforms for renting and selling game accounts. Beginning in July 2021, China suspended its issuance of ISBN. This demonstrated that the game supervision was becoming stricter, and the development of the game industry was facing challenges and uncertainty; (v) in April 2022, China resumed its issuance of ISBN for domestic online games. In November 2022, People's Daily Online published an article called "The Opportunity to Dig Deep into the Value of the Video Game Industry Cannot be Lost" (深度挖掘電子遊戲產業價值機不可失), indicating that the online games industry had become an industry of great significance to the national industrial layout and scientific and technological innovation. Since the last issuance of ISBN for imported games in June 2021, the issuance of ISBN for such games resumed in December 2022. From 2017 to 2021, the number of issued ISBN in China was 9,368, 2,105, 1,570, 1,405 and 755, respectively. Since 2018, the number of issued ISBN had been greatly reduced. In the future, with the normalization of ISBN issuance, the number of ISBN issued is expected to increase; and (vi) in December 2023, the National Press and Publication Administration issued the Draft Online Games Measures. The purpose of the Draft Online Games Measures is to strengthen the standardized management of the industry and provide more detailed and strict requirements for the supervision of online games in China. Although the Draft Online Games Measures are still in the stage of soliciting public opinions, the tightening supervision of China's online games industry is a confirmed trend.

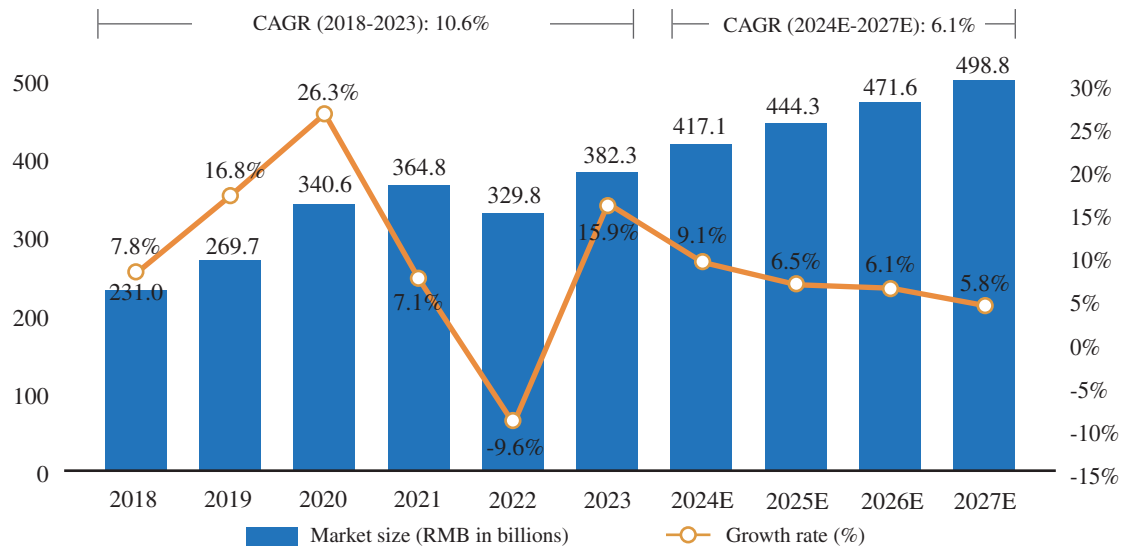
In general, while industry supervision has become stricter in recent years, there had been more ISBN issuances since late 2022. In 2023, the number of ISBN issued for new games was 1,075. This trend encourages the participants in China's online games industry to pay more attention to innovation, R&D and refined operation in order to pursue high-quality development.

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Market Size

Driven by residents' increasing per capital income, growing users' entertainment demand and the diversification of online game genres, the market size of China's online games industry has increased accordingly. Despite the strict regulation of China's online games industry and the intense market competition, online game developers continue to improve their R&D capabilities and move towards high-quality and refined development. In addition, COVID-19 pandemic also increased the users' demand in digital cultural entertainment, including online games. The market size of China's online games industry increased from RMB231.0 billion in 2018 to RMB382.3 billion in terms of revenue in 2023, representing a CAGR of 10.6%. In 2022, the global macro-economy was still recovering. Online users' willingness and ability to pay declined. Meanwhile, China's online games market was strictly regulated and the number of ISBN issued significantly decreased in 2022. In 2023, many negative factors during the COVID-19 pandemic significantly subsided, and user consumption willingness and ability rebounded. The market size is expected to grow from RMB417.1 billion in 2024 to RMB498.8 billion in 2027, representing a CAGR of 6.1%. The diagram below illustrates the historical and projected size of China's online games industry in terms of revenue from 2018 to 2027:

China's Online Games Market Size⁽¹⁾, 2018-2027E



Note:

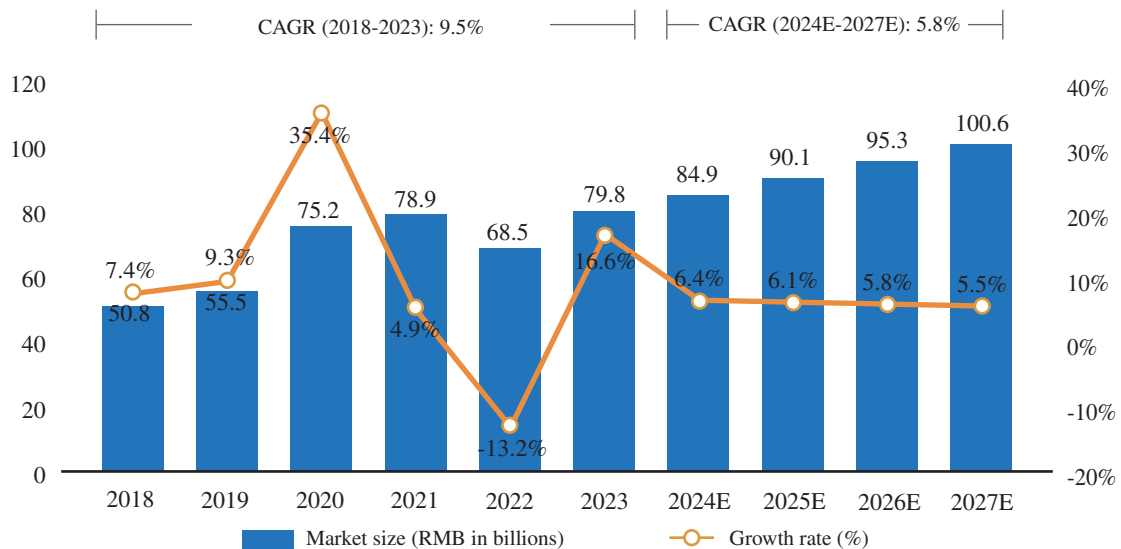
- (1) The total product revenue generated by online games (PC internet games and mobile internet games) in China's online games market, including game payment (including pre-paid and value-added top-up) and built-in advertising revenue, as well as e-sports operating revenue and IP derivatives revenue.

Source: *Analysys*. The data is calculated by *Analysys* based on national statistics, corporate financial statistics and industry statistics.

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Specially, the market size of China’s mobile games publishing industry in terms of revenue grew from RMB50.8 billion to RMB79.8 billion from 2018 to 2023, representing a CAGR of 9.5%. Since the regulation of the online games market in China was becoming stricter, the ISBN issued by the relevant authorities significantly decreased in 2022, and therefore, the number of new online games was reduced in the same year. Accordingly, the size of China’s mobile games publishing industry declined in 2022 compared to 2021. In 2023, the issuance of ISBN resumed normalcy, and the total number of online game licenses announced by the National Press and Publication Administration reached 1,075, representing a year-on-year increase of 110%, which brought strong confidence to China’s online games market. However, the Chinese government is becoming more prudent in the approval and use of game licenses in recent years and the total number of new game products in the market has started to decrease. Considering the aforementioned factors, the CAGR of China’s mobile games publishing market size is expected to slow down to 5.8% from 2024 to 2027. The diagram below illustrates the historical and projected size of China’s mobile games publishing industry in terms of revenue from 2018 to 2027:

China’s Mobile Game Publishing Market Size, 2018-2027E



Note:

- (1) The total product revenue generated by mobile games in China’s mobile game publishing market, including game payment (including pre-paid and value-added top-up) and built-in advertising revenue, as well as e-sports operating revenue and IP derivatives revenue.

Source: Analysys. The data were calculated by Analysys based on national statistics, corporate financial statistics and industry statistics.

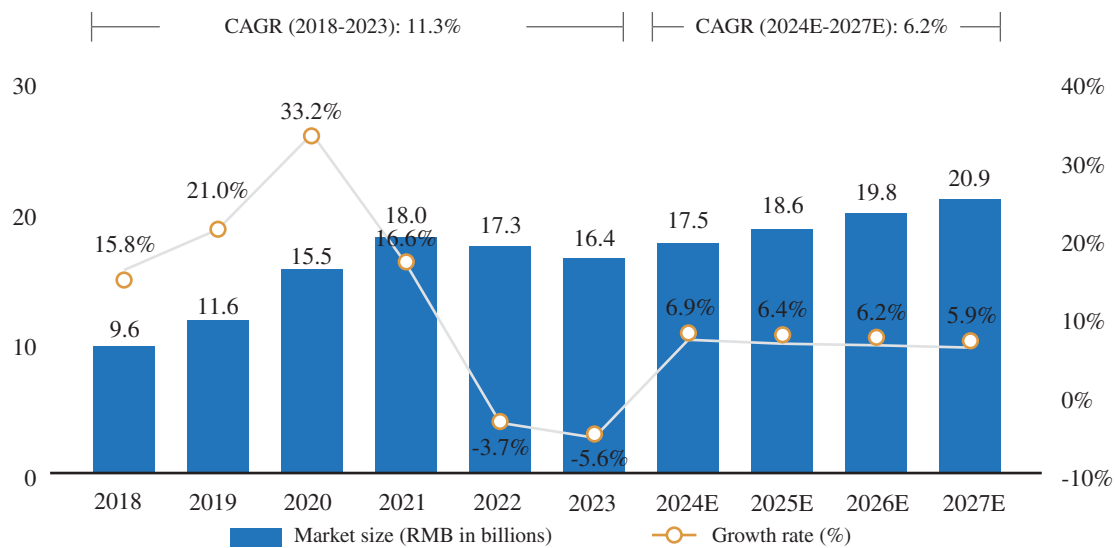
The number of online game users in China has increased from approximately 626 million in 2018 to approximately 668 million in 2023, representing a CAGR of 1.3% and the industry has become saturated. Due to the impact of slower global economic recovery than expected, the number of China’s online game users declined in 2022 compared to 2021, and slightly increased in 2023. Driven by the continuous increase of Chinese residents’ per capita income, the refinement of

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the game products and the improvement of game recognition, the number of China’s online game users in China is expected to continue to grow from approximately 674 million in 2024 to approximately 684 million in 2027, representing a CAGR of 0.5%.

To explore overseas opportunities, China’s online game enterprises, primarily including developers, publishers and distributors have expanded their business to Japan, South Korea and other regions. In addition, with the tightening regulations of online games in China and the relatively open policies of overseas online games industry, more online game enterprises in China have started to develop their overseas businesses. The revenue from China’s self-developed online games in the overseas markets increased from US\$9.6 billion in 2018 to US\$16.4 billion in 2023, representing a CAGR of 11.3%. The market size is expected to grow from US\$17.5 billion in 2024 to US\$20.9 billion in 2027, representing a CAGR of 6.2%. The diagram below illustrates the historical and projected overseas market size of China’s self-developed online games from 2018 to 2027.

Overseas Market Size of China’s Self-developed Online Games⁽¹⁾, 2018-2027E



Note:

- (1) The data from 2018 to 2023 came from Game Publishing Committee of the China Audio-Video and Digital Publishing Association, and the forecast data for 2024 to 2027 is calculated by Analysys based on industry statistics and corporate financial data.

Source: Game Publishing Committee of the China Audio-Video and Digital Publishing Association, Analysys

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Competitive Landscape

The top five online game publishers in China in terms of revenue in 2023 were Tencent, NetEase, MiHoYo (米哈遊), 37 Interactive Entertainment (三七互娛) and Lilith (莉莉絲), which collectively accounted for over 70% of the market share. Many small- and medium-sized online game publishers compete for the remaining market share. Overall, the market concentration of online game publishing in China is high and the competition pattern is relatively stable. Enterprises who have first-mover advantage in the industry are expected to maintain competitive advantages by leveraging their long-term industry experience and rich industry resources.

Future Outlook

The implementation of online game related policies and restrictions in China has promoted the standardized development of China's online games industry. Due to the increasingly intense competition in the market and the slow-down of the growth rate of the user base, China's online games enterprises have increased their investments in R&D and promoted refined development of game products in order to attract and retain users. In addition, according to the Game Publishing Committee of the China Audio-Video and Digital Publishing Association (中國音像與數字出版協會遊戲出版工作委員會), the revenue of China's self-developed games in overseas markets reached US\$16.4 billion in 2023, with a CAGR of 11.3% from 2018 to 2023. The trend of overseas development would continue in light of the maturing online games industry and increased regulatory supervision in China.

The following trends have a continual impact on the online games industry:

- *Deeper application of online games in the metaverse.* With the advancement of VR, AR and other metaverse-related technologies, users will be able to enjoy better gaming experience in the metaverse world. Online games will also be applied to more metaverse scenarios, such as film, television, social and education.
- *Closer connection of culture and entertainment.* Tighter connection between online games and film, TV series and other cultural products helps to enhance the influence of the game brands and expand user base.
- *Growing trend of overseas development.* The performance of China's online games in overseas markets received wide market recognition in the past five years, which provided confidence for online game enterprises to continue exploring new markets overseas and expand their global presence. In addition, China's tightening regulations of online games markets and online game users' requirements for high quality game content have also contributed to the growing trend of overseas development involving online game enterprises in China.