The information and statistics presented in this section and other sections of this document, unless otherwise indicated, were extracted from different official government publications and other publications, and from the industry report prepared by Frost & Sullivan, an independent market research and consulting company that was commissioned by us, in connection with this **[REDACTED]**. *The information from official government sources has not been independently verified by us, the Sole Sponsor,* **[REDACTED]**, **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *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.*

DIGITAL ENTERTAINMENT INDUSTRY OVERVIEW

Definition of Digital Entertainment

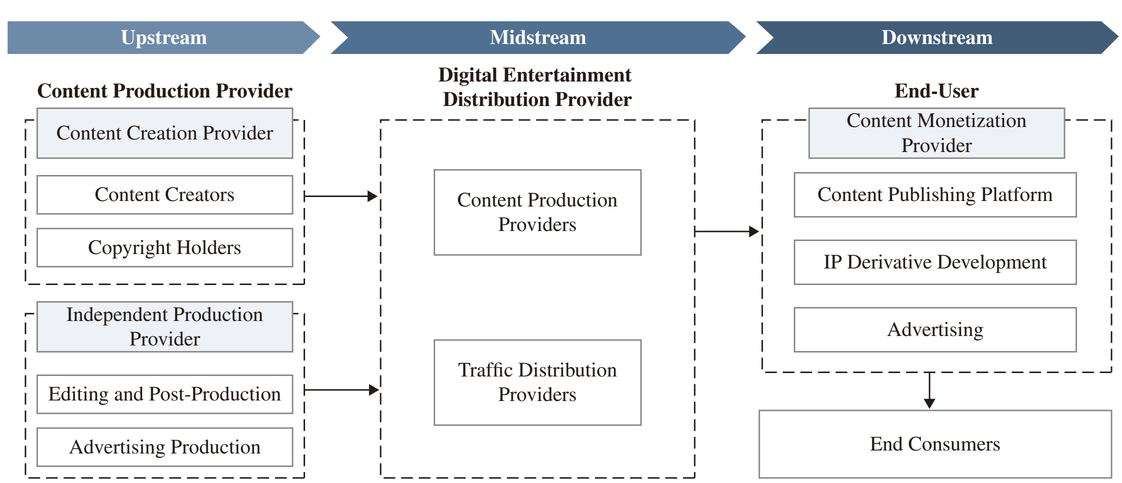
Digital entertainment refers to entertainment content products and services that leverage digital technologies as both carriers and creative tools, which are distributed through channels such as mobile internet and smart devices. It encompasses diverse formats including online literature, online comics, online films and series, online audio, digital music, online games, and virtual performances. The purpose of such content is to fulfil users' needs for entertainment, aesthetics, and emotional engagement.

Market Size of Global and China Digital Entertainment Industry

Propelled by the evolution of digital entertainment consumption behaviours and the continuous enrichment of digital content formats and distribution channels, the global digital entertainment market expanded from RMB1,778.5 billion in 2020 to RMB2,511.7 billion in 2024, with a CAGR of 9.0%. As content creators' creation and monetization through interactive entertainment, subscription-based services and advertising-supported models achieve broader adoption, the global digital entertainment market is expected to reach RMB4,392.5 billion in 2029, with a CAGR of 11.8% from 2024 to 2029.

Driven by the rapid adoption of short-form video and AI-enabled improvements in content production and distribution efficiency, with China's digital entertainment market accounting for an increasing share of the global digital entertainment market, China's digital entertainment market expanded from RMB422.1 billion in 2020 to RMB609.6 billion in 2024, with a CAGR of 9.6%. Supported by strengthened industry collaboration, a more mature content production ecosystem and AI-driven improvements in production efficiency, the market is expected to maintain steady expansion. The market size is forecasted to reach RMB1,083.2 billion in 2029, with a CAGR of 12.2% from 2024 to 2029.

Digital Entertainment Industry Chain Analysis and Business Models



Source: Expert Interviews, Frost & Sullivan Report

The digital entertainment content value chain primarily consists of upstream content production providers, midstream digital distribution providers, and downstream end-user market.

Upstream content production providers mainly include content creators, copyright holders, and independent production providers responsible for content planning, production, creative development, and IP incubation. This segment serves as the core innovation and content supply hub, and the quality of content directly determines its long-term audience appeal and commercial potential. Midstream digital distribution providers mainly include content production providers and traffic distribution providers, which enable large-scale content distribution and reach. They also provide user recommendation mechanisms, while undertaking user operations and ecosystem coordination. This segment functions as the essential bridge between content production providers and the end-user market. Downstream end-user market primarily consists of end consumers where monetization occurs through long-term subscriptions, non-subscription content-based payments, and advertising engagement.

The business model of the digital entertainment industry is centered on content value, generating revenue primarily through subscription models, copyright licensing and distribution, and advertising-based monetization, while expanding into diversified income streams such as IP-based derivative development. Meanwhile, platforms leverage user data insights and AI technologies to enable refined operations, improve content value conversion efficiency and enhance content production, further enhancing the long-term commercial return of digital content assets.

Short-form Entertainment Content Emerging as a Core Trend in the Digital Entertainment Industry

Digital entertainment content is increasingly evolving toward short-form formats, which are media forms distributed primarily through the internet, designed to fit fragmented consumption scenarios and characterized by low access barriers and high consumption efficiency. Its core purpose is to fulfil users' instant entertainment needs through concise and easily consumable formats, including online literature, micro dramas, short-form videos, webcomics and motion comics. Online literature and online comics evolved from traditional offline publishing and started to gain traction around 2003, followed by a period of steady market growth. In comparison, micro dramas and motion comics emerged as innovative adaptations of existing online literature and animation IP and experienced rapid adoption and explosive growth since 2022. From the user behaviour perspective, digital entertainment content is gradually shifting from a model dominated by prolonged, immersive engagement toward a usage pattern characterized by high-frequency, short-duration interactions. As users' everyday digital usage scenarios continue to expand and time utilization becomes increasingly fragmented, the continuity of single-session content usage has weakened. During fragmented time periods such as commuting, users tend to prefer content formats that can deliver a complete experience within a few minutes.

- ***Shifts in Consumer Behaviour Accelerate the Penetration of Short-form Content***

Users are more inclined to engage with short-form, fast-paced, and instantly responsive content during commuting, dining, waiting, and other brief consumption scenarios, fulfilling needs such as emotional release, social expression, and casual entertainment. Short-form content also demonstrates strong user engagement and high user retention, leading to more frequent daily engagement by users.

- ***IP Assets Strengthen the Sustainability and Scalability of Short-form Content***

Well-established IPs provide ready-made story worlds, character recognition, and emotional resonance, enabling content producers to shorten audience acquisition cycles and improve content acceptance efficiency. For short-form formats, IP-driven narratives facilitate rapid immersion within limited time frames, supporting high-frequency consumption and repeat engagement. Moreover, strong IP foundations allow content to be adapted and extended across multiple short-form formats enhancing monetization flexibility and lifecycle value.

- ***Technology as a Catalyst for Transformation in Content Production and Distribution Efficiency***

The adoption of AI reduces creative barriers and production costs while improving efficiency across key processes including script generation, character modelling, dubbing, and editing. This enables independent creative teams and even individual creators to achieve scalable production. Meanwhile, the rise of short-form video and digital entertainment platforms has facilitated precise content–audience matching through algorithmic recommendation and data-driven distribution, thereby improving dissemination efficiency and extending content lifecycle value. As AIGC, virtual avatar technologies, and other generative content creation tools continue to mature, the industry is expected to achieve stronger multimodal content generation capabilities, automated adaptation across formats, and broader scalable supply.

Competitive Landscape of China Digital Entertainment Market

As China's digital entertainment market encompasses multiple sub-segments, the market exhibits a fragmented structure with numerous participants. Competitive overlap across sub-segments remains limited, with companies primarily competing within their respective vertical domains, resulting in a diversified overall competitive landscape.

ONLINE LITERATURE MARKET OVERVIEW

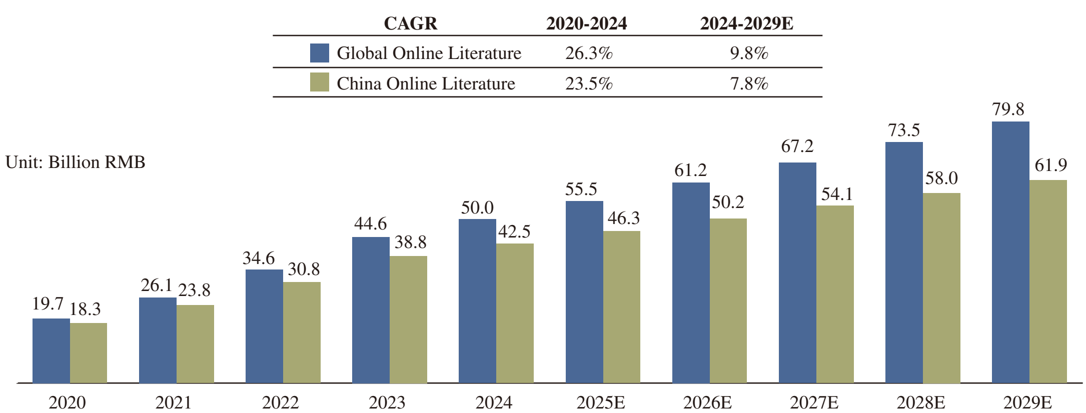
Definition of Online Literature

Online literature refers to literary works and related content services that are created, published, and distributed on the internet, with text as the core medium. As a relatively mature form of short-form digital entertainment, it is produced by creators for a broad online readership, covers genres such as novels and essays, and features both interactivity and real-time responsiveness.

Market Size of Global and China Online Literature Industry

The global online literature market maintains its growth momentum, rising from RMB19.7 billion in 2020 to a projected RMB79.8 billion in 2029, reflecting a robust CAGR of 26.3% from 2020 to 2024 and 9.8% from 2024 to 2029. Meanwhile, China's online literature market, growing from RMB18.3 billion in 2020 to an estimated RMB61.9 billion in 2029, indicating that the domestic market is approaching a more mature stage. Despite the relative maturity of China's online literature market, rest of the world (excluding China) markets remain at an early stage of development with substantial growth potential, driven by rapidly increasing user penetration, diversified content genres, and ongoing improvements in AI-driven translation and localization capabilities.

Global and China Online Literature Market Size, 2020-2029E



Source: Expert Interviews, China Internet Network Information Center, Frost & Sullivan Report

Market Drivers and Trends of Online Literature Industry

- ***Strengthening Development of Online-literature IP Derivatives***

Online literature has become the primary IP source within the short-form digital-entertainment ecosystem. As the industry places increasing emphasis on refined and long-term IP operations, the full-chain development of online literature IP - extending into film and television, animation, games, and other content formats - has steadily matured. This cross-media expansion amplifies the commercial value of original works and enables multi-layered, multi-cycle monetization pathways.

- ***Expanding Cross-regional Markets and Global Reach***

Supported by advances in AI-powered translation, diversified genre offerings, and the growing scale of digital content libraries, online literature is gaining broader recognition across global audience. Efficient localization capabilities have lowered global distribution barriers, accelerating user growth, revenue generation, and cultural influence across major international markets.

- ***Deep AI Empowerment and Creative-ecosystem Transformation***

AI-assisted creation, including intelligent outline generation, character-profile optimization, and multi-chapter content generation, has rapidly evolved. What began with grammar correction and simple plot continuation has progressed to deep human-AI collaborative creation. This shift greatly improves production efficiency, enhances content consistency, and enables creators to scale their output, reshaping the entire creative workflow.

Competitive Landscape of China Online Literature Market

China online literature market exhibits a relatively high level of concentration, with leading platforms capturing a significant share of user engagement, high-quality IP resources, and commercial revenue. As the market matures, competitive advantages increasingly stem from content quality, IP development capabilities, and technology-driven operations, which collectively reinforce the stability of established market leaders.

Ranking of China Online Literature Market

In China online literature market, participants are generally divided into two categories. Copyright-driven content platforms focus on original content production, author ecosystems, and IP ownership, while traffic-driven content platforms primarily serve as content distribution channels, leveraging large user bases and recommendation systems to deliver content, often without full IP ownership.

In 2024, China online literature market reached RMB42.5 billion. Our Company ranked 3rd within copyright-driven content platforms, with a market share of 1.6%. The following table presents the ranking of copyright-driven content platforms in China online literature market, as measured by revenue in 2024.

Ranking	Company	2024 Revenue (Billion RMB)	Market Share[1]
1	Company A[2]	7.5	17.6%
2	Company B[3]	1.4	3.3%
3	Our Company	0.7	1.6%
4	Company C[4]	0.6	1.4%
Others		32.3	76.0%
Total		42.5	100.0%

Source: Expert Interviews, Frost & Sullivan Report

MICRO DRAMA MARKET OVERVIEW

Definition of Micro Drama

As an emerging short-form digital entertainment content, micro dramas refer to internet-based audiovisual content primarily distributed through online platforms and optimized for vertical viewing on mobile and other smart devices. Individual episodes typically range from one to ten minutes in duration and are characterized by streamlined production and fragmented consumption patterns, serving users' demand for instant entertainment. Meanwhile, micro dramas are increasingly emerging as a quintessential mobile-native entertainment paradigm, with relatively high commercial potential.

Notes:

1 Calculated based on China online literature market size in 2024

2 A listed company incorporated in 2014, headquartered in China, primarily engaged in online literature publishing, IP operation, and the development and monetization of literary content across multiple formats.

3 A privately held company founded in 2003, headquartered in China, primarily focused on female-oriented online literature publishing and original content distribution through its proprietary online platform.

4 A private company founded in 2010, headquartered in China, primarily engaged in online literature publishing with a focus on genre fiction, including suspense, fantasy, and urban-themed content.

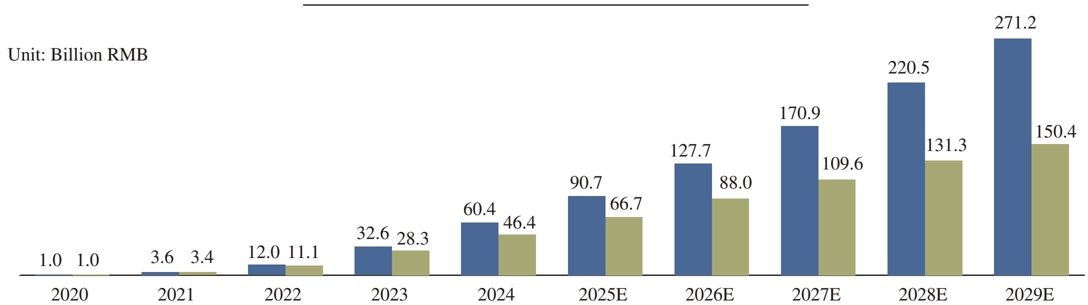
Market Size of Global and China Micro Drama Industry

The global micro drama market expanded from RMB1.0 billion in 2020 to RMB60.4 billion in 2024, with a CAGR of 181.4%. With continuous enhancement in subscription models, advertising monetization, IP extensions, and overseas distribution capabilities, the market is expected to reach RMB271.2 billion in 2029, with CAGR of 35.0% over 2024 to 2029.

Driven by the ongoing upgrade of mobile internet content consumption, the deepening shift toward experiential and fragmented entertainment consumption patterns, and accelerated platform investment, China's micro drama market increased from RMB1.0 billion in 2020 to RMB46.4 billion in 2024, with a CAGR of 163.5%. The market is expected to reach RMB150.4 billion in 2029, with a CAGR of 26.5% from 2024 to 2029. The overseas micro drama market remains in an early-stage development phase and is projected to expand from RMB14.0 billion in 2024 to RMB120.8 billion in 2029, with a CAGR of 53.9%. Among overseas markets, North America accounted for the largest share in 2024, representing 51.2% of the total overseas micro drama market, and is expected to grow from RMB7.2 billion in 2024 to RMB55.6 billion in 2029. Meanwhile, the Southeast Asian micro drama market is projected to increase from RMB1.4 billion in 2024 to RMB16.5 billion in 2029, with a CAGR of 64.0%, making it the fastest-growing regional market.

Global and China Micro Drama Market Size, 2020-2029E

CAGR	2020-2024	2024-2029E
Global	181.4%	35.0%
China	163.5%	26.5%



Source: The Digital Entertainment Group, China Internet Network Information Center, Expert Interviews, Frost & Sullivan Report

Market Drivers and Trends of Micro Drama Industry

- ***Localized Production Teams and On-Site Filming Overseas***

Localized production teams and on-site filming are becoming a growing trend in the global expansion of Chinese micro dramas. The model has evolved from domestic production with overseas distribution to localized creation and full-process filming in target markets. Leading companies are establishing local studios in certain regions such as Europe and North America and building production teams composed of local writers, actors, and filming crews. This approach enhances cultural relevance and audience acceptance while improving commercial efficiency and strengthening the long-term scalability of global operations.

- ***Content Themes in Micro Drama Are Becoming Increasingly Diverse***

Micro dramas are expanding through diversified and innovative content themes, effectively breaking audience segmentation boundaries and broadening overall user reach. Youth-oriented content themes, including historical fantasy, time-travel narratives and supernatural storylines, are experiencing growth in both production scale and audience reach. Meanwhile, traditional genres continue to evolve through hybrid storytelling that incorporates romance, business rivalry, political intrigue, and other narrative elements. Additionally, nostalgic period pieces and realistic emotional healing content are emerging, with localized cultural integration and refined emotional expression further enriching thematic depth and narrative scope.

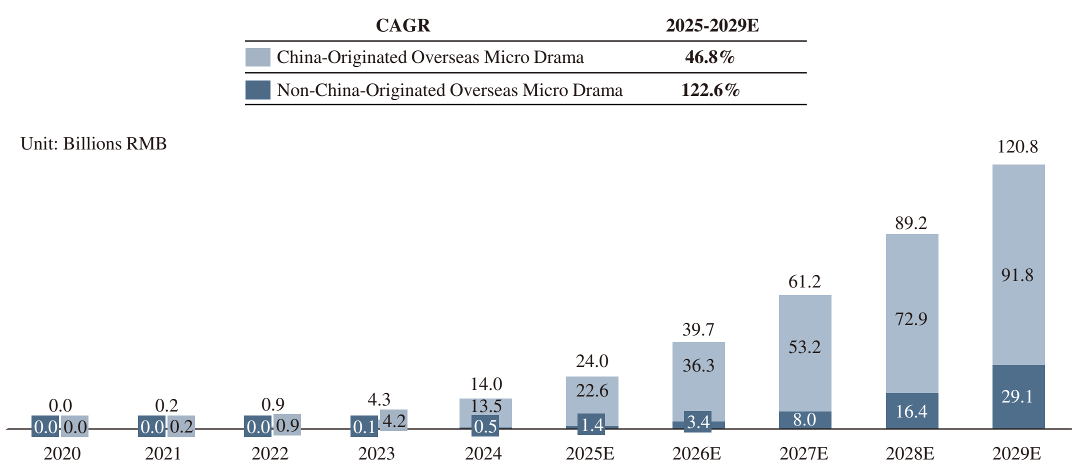
- ***AIGC Driven Enablement of the Micro Drama Industry***

The development of AIGC technologies is reshaping the micro drama industry across both cost efficiency and creative enablement. By reducing reliance on traditionally high-cost production processes such as on-site filming that requires physical venue rental and actor engagement, AIGC optimizes the cost structure and improves operational efficiency for content producers. Meanwhile, AIGC alleviates constraints associated with physical settings, equipment availability and actor scheduling, enabling the creation of storylines without the limitations imposed by practical production conditions.

- ***China-Originated Overseas Micro Drama Market Exhibits Considerable Potential for Future Growth***

Due to the enhancements in global distribution channels and localized content production capabilities, the market size of China-originated overseas micro drama expanded to RMB13.5 billion in 2024. As overseas marketing accelerates, localized operational teams continue to expand, and diversified monetization models including subscriptions, advertising and paid content begin to reach scale. The market is expected to reach RMB91.8 billion in 2029, with China-originated overseas micro dramas dominating the growth.

Overseas Micro Drama Market Size, 2020-2029E



Source: China Internet Network Information Center, Expert Interviews, Frost & Sullivan Report

Competitive Landscape of Micro Drama Market

China Micro Drama Market Landscape

China micro drama market is becoming more concentrated. As the industry enters a scaled operational phase, content production expenses, marketing expenditure, and technology-driven operational requirements continue to rise. Companies with strong resource integration capabilities, efficient user acquisition strategies, and large-scale content production capacity are expanding their market share.

Overseas Micro Drama Market Landscape

The overseas micro drama market remains relatively fragmented as in the ramp-up phrase. Demand for localized content varies across markets, resulting in a regionally segmented and multi-player competitive landscape. Companies with strong content development capabilities, user-acquisition experience, and operational efficiency demonstrate clear advantages in user growth and monetization. China-originated overseas micro drama companies operating in overseas markets have already established early-mover advantages in Southeast Asia and North America etc..

Ranking of Overseas Micro Drama Platforms and Applications

The Company launched FlareFlow in April 2025, and it has since emerged as one of the most popular and best-performing micro drama applications in the market.

Based on the revenue, MAUs and downloads in September 2025, FlareFlow ranked 8th, 7th and 4th among overseas micro drama platforms.

By Revenue in September 2025*

Ranking	Platform	Revenue (Million)
1	Platform I[5]	174.2
2	Platform J[6]	151.8
3	Platform K[7]	90.0
4	Platform D[8]	84.0
5	Platform L[9]	72.7
6	Platform F[10]	37.7
7	Platform E[11]	35.7
8	FlareFlow	33.8

By MAUs in September 2025*

Ranking	Platform	MAUs (Million)
1	Platform I	49.2
2	Platform J	40.2
3	Platform D	17.8
4	Platform K	14.5
5	Platform L	13.9
6	Platform E	10.8
7	FlareFlow	7.0
8	Platform F	5.9

By Downloads in September 2025*

Ranking	Platform	Downloads (Million)
1	Platform I	16.4
2	Platform J	15.5
3	Platform K	6.7
4	FlareFlow	6.2
5	Platform L	5.7

* Revenue from 1 September 2025 to 30 September 2025. Revenue includes all paid downloads and in-app purchases generated through the iOS App Store and Google Play, net of applicable platform commissions, and excludes revenue generated through other third-party platforms or channels, including, but not limited to, advertising and e-commerce.

* Monthly active users from 1 September 2025 to 30 September 2025.

* Downloads from 1 September 2025 to 30 September 2025.

Source: Sensor Tower, Frost & Sullivan Report

Based on the MAUs during the initial seven-month period following launch, FlareFlow ranks 2nd among overseas micro drama platforms.

Based on the cumulative revenue during the initial seven-month period following launch, FlareFlow ranks 3rd among overseas micro drama platforms.

By MAUs During the Initial Seven-month Period Following Launch*

Ranking	Platform	MAUs (Million)
1	Platform D	9.1
2	FlareFlow	3.6
3	Platform E	2.7
4	Platform F	2.3
5	Platform G[12]	1.7

By Cumulative Revenue During the Initial Seven-month Period Following Launch*

Ranking	Platform	Revenue (Million RMB)
1	Platform D	162.7
2	Platform F	129.5
3	FlareFlow	123.2
4	Platform E	103.4
5	Platform H[13]	93.9

* Average MAUs during the initial seven months after each app launched.

* Cumulative revenue during the initial seven months after each app launched. Cumulative revenue includes all paid downloads and in-app purchases generated through the iOS App Store and Google Play, net of applicable platform commissions, and excludes revenue generated through other third-party platforms or channels, including, but not limited to, advertising and e-commerce.

Source: Sensor Tower, Frost & Sullivan Report

Notes:

5 Launched in 2023, is a micro drama application platform operated by Company I, established in 2011 and headquartered in Beijing.

6 Launched in 2022, is a micro drama application platform operated by Company J, established in 2016 and headquartered in California.

7 Launched in 2023, is a micro drama application platform operated by Company K, established in 2020 and headquartered in Beijing.

8 Launched in 2024, is a micro drama application platform operated by Company D, established in 2008 and headquartered in Beijing.

9 Launched in 2024, is a micro drama application platform operated by Company L, established in 2015 and headquartered in Chongqing.

10 Launched in 2024, is a micro drama application platform operated by Company F, established in 2014 and headquartered in Hangzhou.

11 Launched in 2023, is a micro drama application platform operated by Company E, established in 2021 and headquartered in Jiaxing.

12 Launched in 2024, is a micro drama application platform operated by Company G, established in 2023 and headquartered in Nanning.

13 Launched in 2024, is a micro drama application platform operated by Company H, established in 2012 and headquartered in Beijing.

AI MOTION COMICS MARKET OVERVIEW

Definition of AI Motion Comics

AI motion comics are AI-driven dynamic visual adaptations of online literature and comics, presented in multiple visual formats including 2D and 3D, and created through techniques such as panel animation, AI voiceover, intelligent editing, and algorithmic pacing. Blending the visual style of comics with the rhythm of micro drama, they sharply lower production barriers and shorten timelines, and deliver short, high-impact content optimized for mobile, fragmented-time consumption. As a result, they have emerged as a new "AI + content" format within digital entertainment.

Market Size of Global and China AI Motion Comics Industry

The global AI motion comics market is at an early but rapidly scaling stage, expanding from RMB12.0 billion in 2024 to RMB133.2 billion in 2029, representing an exceptional CAGR of 61.8%. China, as one of the core innovation hubs, shows even stronger momentum, with market size rising from RMB8.0 billion in 2024 to RMB92.3 billion in 2029, with a CAGR of 63.1%. This exponential growth reflects the deep integration of generative AI into content creation workflows, significantly lowering production costs, compressing creation cycles, and enabling large-scale commercialization across short-form video and digital entertainment platforms. China's adoption speed, platform-driven demand, and strong IP ecosystem position it to become one of the world's most dynamic AI motion-comics markets over the next five years.

Market Drivers and Trends of AI Motion Comics Industry

- ***Technology-led Efficiency Gains and Cost Reduction***

AI dramatically lowers production thresholds through automated panel animation, AI voiceover, intelligent editing, and rapid content iteration, enabling studios to scale output with smaller teams and shorter cycles. This efficiency shift supports high-volume, low-cost content supply and accelerates commercialization across platforms.

- ***IP Ecosystem Integration and Multi-Format Convergence***

AI motion comics increasingly serve as an efficient modality for IP visualization layer accelerating the adaptation of online literature, comics, and micro dramas. Their speed, flexibility, and lower cost allow for early fan testing, content incubation, and multi-format monetization across the IP lifecycle.

- ***Platform Demand for Scalable, High-retention Content***

Short-video and content platforms increasingly prioritize serialized, high-engagement content to boost user retention. AI motion comics, fast to produce, episodic by design, and suited to algorithmic recommendation, fit platform needs for continuous, low-cost content supply.

SUCCESS FACTORS OF DIGITAL ENTERTAINMENT MARKET

- ***Capability for Sustained High-Quality Content Production***

With rising user aesthetic expectations and intensifying market competition, industry players must build long-term content production capabilities rooted in user-insight and forward-looking trend judgment. By leveraging professional creative teams and standardized production workflows, companies need to consistently deliver content with innovative value, emotional resonance, and positive thematic orientation in order to maintain sustained competitiveness.

- ***IP Assets and Protection Ecosystem***

A deep reservoir of IP resources and mature derivative-development capabilities form the foundation of sustainable competitive advantage. A diversified IP portfolio, combined with proven localization and cross-market execution capabilities, enables companies to efficiently convert IP value into commercially viable content offerings and build a closed-loop ecosystem spanning "IP origination → multi-format adaptation → full-chain monetization." Robust IP protection mechanisms further safeguard core assets, mitigate infringement risks, and preserve long-term commercial value, reinforcing durable competitive barriers.

- ***Integration of Technology and Content Creation***

Rapid advancements in artificial intelligence technologies are reshaping digital entertainment, making technological capabilities a critical source of competitive strength. Companies with deep technical expertise and extensive implementation experience can secure first-mover advantages by applying AI across the entire content-creation workflow—from ideation and production to presentation optimization—continuously improving efficiency and enabling content innovation.

- ***Globalized Operational Capabilities and Cross-Market Execution Experience***

As digital entertainment expands across regions, globalized operational experience is increasingly integral to effective cross-market execution. Companies with established cross-market execution capabilities are more capable of managing content localization, distribution, and daily operations across different regions, enabling more efficient and scalable content deployment and overseas expansion.

SOURCES OF INFORMATION AND RESEARCH METHODOLOGY

We engaged Frost & Sullivan for preparing an independent industry report in respect of the [**REDACTED**]. The information from Frost & Sullivan disclosed in the document is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB500,000, 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. Its services include, among others, industry consulting, market strategic consulting and corporate training. Frost & Sullivan conducted (i) primary research, which involved discussing the status of the industry with certain leading industry participants, and interviews with industry experts on a best-effort basis to collect information in aiding in-depth analysis; and (ii) secondary research, which involved reviewing government statistics, industry association publication, company reports, independent research reports and data based on its own research database.