
INDUSTRY OVERVIEW

This section contains certain information, statistics and data which are derived from a commissioned report from iResearch, an independent third party. The information from official government publications, industry sources and the iResearch Report may not be consistent with information available from other sources within or outside the PRC and Hong Kong. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. However, neither we nor any other party involved in the [REDACTED] have independently verified such information, and neither we nor any other party involved in the [REDACTED] are giving any representation as to the accuracy or completeness of such information. As such, [REDACTED] are cautioned not to place any undue reliance on the information, including statistics and estimates, set out in this section or similar information included elsewhere in this document. For a discussion of risks relating to our industry, see “Risk Factors — Risks Related to Our Business.”

SOURCE OF INFORMATION

We commissioned iResearch to conduct market research concerning the short video and live streaming industry. We believe that iResearch has specialized research capabilities and experience in this industry in China. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the iResearch Report. All references to DAUs in this section refer to daily active users by unique mobile device.

The iResearch Report

iResearch is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including the short video and live streaming industry. We have agreed to pay a commission fee of approximately RMB960,000 for the iResearch Report. The iResearch Report was compiled using both primary and secondary research conducted in China. The primary research involved expert interviews and company interviews. The secondary research utilized information and statistics published by government departments, industry associations, publications and studies by industry experts, public company annual and quarterly reports, iResearch’s other research reports, online resources and data from iResearch’s research database.

iResearch’s projection on the size of each of the related markets in China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information regarding, short video and live streaming-based social platforms, and those companies’ projections of the related industries from iResearch’s interviews or communications with them, (iii) the projections of other industry experts, and (iv) iResearch’s views and estimates of industry developments. iResearch has prepared the iResearch Report on the assumptions that (i) the social, economic and political environments of China will remain stable during the forecast period, which ensures a sustainable and steady development of China’s mobile internet industry, (ii) the data quoted from authoritative agencies remains unchanged, (iii) related

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key industry drivers remain relevant and applicable in the forecast period, and (iv) there will be no subversive changes to the related industries. The reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

Directors’ Confirmation

Our Directors have confirmed, after making reasonable inquiries and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the iResearch Report, which may qualify, contradict or impact the information in this Industry Overview section.

INCREASING MOBILE TIME SPENT ON VIDEO

Video is an increasingly popular content format for online experiences as it captures the richness of moments and makes real-time engagement more natural and close to in person. The proliferation of the mobile internet and development of smart devices, bandwidth and mobile infrastructure, particularly the expansion of 4G and introduction of 5G, will continue to spur this development.

As a new and evolving content format, video is capturing the attention of mobile internet users globally. According to iResearch, globally, mobile internet users on average spent 3.37 hours online each day in 2019, and are expected to spend 3.90 hours online each day by 2025. Approximately 23.5% of that time was spent on video-based social and entertainment platforms in 2019, which is expected to reach 32.8% by 2025.

China is leading the development of video-based mobile experiences globally. According to iResearch, China had the world’s largest mobile internet population of 873 million users in 2019, representing 23.0% of mobile internet users globally. According to iResearch, China’s mobile internet user population is expected to reach 1.1 billion by 2025, with penetration rate increasing from 62.4% to 78.5%.

China mobile internet user population and mobile internet penetration, 2015A-2025E

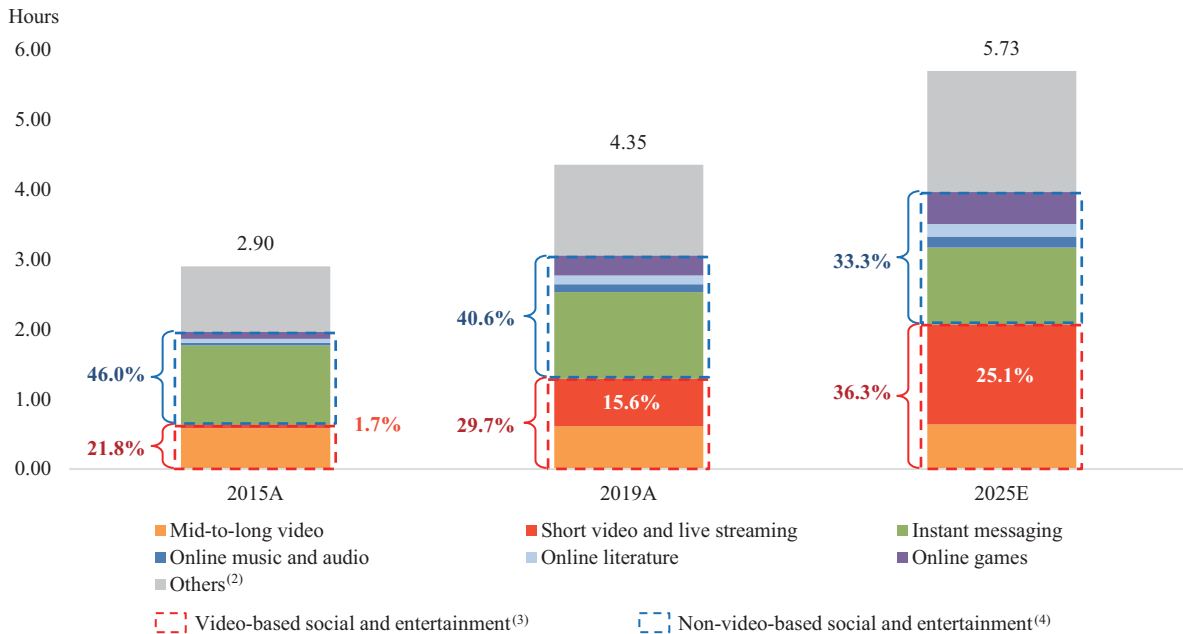
	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Mobile internet users (in millions)	620	695	753	817	873	943	995	1,038	1,076	1,109	1,137
Mobile internet penetration rate (%)	45.3%	50.6%	54.4%	58.8%	62.4%	66.9%	70.2%	72.8%	75.0%	77.0%	78.5%

Source: iResearch (2015A-2019A data based on CNNIC)

Mobile internet users in China on average spent 4.35 hours online each day in 2019, compared to 2.90 hours in 2015, and are expected to spend 5.73 hours online each day by 2025. Approximately 29.7% of that time was spent on video-based social and entertainment platforms in 2019, which is expected to reach 36.3% by 2025.

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China mobile internet users’ average daily time spent online by core app function⁽¹⁾, 2015A vs. 2019A vs. 2025E



Source: iResearch

- (1) Average daily time spent by device.
- (2) Including news, e-commerce, local services, tools and utility apps, etc.
- (3) Including mid-to-long video, short video and live streaming.
- (4) Including instant messaging, online music and audio, online literature, and online games.

EMERGENCE OF VIDEO-BASED SOCIAL PLATFORMS

The earliest social platforms focused around connecting people through text, pictures and audio. Over time, the content formats used on social platforms and user behavior on those platforms have evolved along with the continuous advancement of hardware, bandwidth, storage and computing power. The continued proliferation of better on-device cameras and faster connectivity in 4G and 5G mobile broadband have made on-demand video capturing and sharing a reality for many internet users. As video is able to capture moments in a real, rich and succinct manner, it has encouraged entirely new social behaviors. This has also enabled innovation in form and function of video such as videos of varying lengths that cater to different social and entertainment needs during fragmented time. As a result, for social platforms, interactions have become more vibrant and natural, with video content augmenting the authenticity of the connections. This is especially true with live streaming as social interaction becomes even more natural.

Two notable forms of video that are gaining popularity on social platforms are short video and live streaming. Led by China, short video and live streaming gained traction in 2012 and 2009, respectively, according to iResearch. Short video addresses users’ need for social entertainment activity during their fragmented time while live streaming addresses users’ need to be social and engage in real time. According to iResearch, average share of mobile internet users’ daily time

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spent on short video and live streaming on short video and live streaming platforms has increased from 1.7% in 2015 to 15.6% in 2019, and is expected to reach 25.1% by 2025 in China. Global social and content platforms have tried to capture this trend. Today, global leading social and content platforms use short video and live streaming, in addition to text, pictures and audio, to deliver a highly engaging and interactive experience for users.

Key drivers for short video and live streaming-based social platforms include:

- *Rising mobile internet penetration and advancements in mobile infrastructure* continue to drive the growth of the mobile internet population and enable people to consume and share more digital content conveniently at a lower cost;
- *Better engagement through short video and live streaming*, compared to text, pictures and audio-based content. Short video and live streaming content is a vivid combination of visual, sound and motion that facilitates a more interactive experience, allowing these forms of content to gain significant popularity in recent years;
- *Increasing ease and lower cost of content creation*, which are driven by the rising penetration of smart mobile devices and advanced technology applied to mobile apps, democratize content creation for users and enhance the quality and quantity of video content; and
- *Needs for self-expression and social recognition* are better fulfilled through short video and live streaming as they convey real, rich and dynamic content and are easy to share and consume.

Short Video

Short videos are rich and succinct, which makes them suitable for addressing users’ fragmented time. They are easy to produce and consume and can be readily shared, which gives them the potential to go viral. These characteristics enable short video platforms to benefit from a strong degree of virality and network effects.

Short videos are a global phenomenon. Apps based on short videos have emerged and social platforms have incorporated short videos into their user experiences.

The rapid development of short video has been led by China. It had the world’s largest user base of short video, representing approximately 80% of users of short video platforms globally in 2019, according to iResearch. Additionally, average DAUs of short video platforms in China reached 495.7 million in 2019 and is expected to reach 899.9 million by 2025, with average daily time spent per DAU on the platforms increasing from 67.0 minutes in 2019 to 110.2 minutes in 2025.

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The following table sets forth China short video platform average DAUs and average daily time spent per DAU for the periods indicated:

China short video platform average DAUs and average daily time spent per DAU, 2015A-2025E

	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2015A-2019A CAGR	2019A-2025E CAGR
Short video platform average DAUs (in millions)	31.8	43.1	142.4	351.8	495.7	629.4	713.1	773.7	821.7	861.9	899.9	98.6%	10.4%
Average daily time spent per DAU (minutes) . . .	41.6	46.0	51.9	58.7	67.0	84.3	93.2	99.2	103.7	107.3	110.2	12.7%	8.6%

Source: *iResearch*

Live Streaming

Live streaming enables real-time video engagement and is a highly social form of content. Users can interact with each other in real time and discover and participate in a broad range of activities, such as games, music shows and outdoor activities. Users on live streaming platforms are able to create and share various content and enjoy an interactive and immersive experience. The proliferation of smartphones in recent years has ignited the popularity of live streaming globally as anyone can easily participate as either a streamer or a viewer.

Globally, live streaming platforms started garnering widespread attention and validation from 2010 through the live streaming of shows, and then later through other social and entertainment use cases.

China has led the rapid commercialization of live streaming globally. It had the world’s largest user base of live streaming, representing approximately 50% of users of live streaming platforms globally in 2019, according to *iResearch*. Additionally, live streaming platform average DAUs in China reached 213.4 million in 2019 and is expected to reach 512.8 million by 2025, with average daily time spent per DAU increasing from 33.2 minutes in 2019 to 51.9 minutes in 2025.

The following table sets forth China live streaming platform average DAUs and average daily time spent per DAU for the periods indicated:

China live streaming platform average DAUs and average daily time spent per DAU, 2015A-2025E

	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2015A-2019A CAGR	2019A-2025E CAGR
Live streaming platform average DAUs (in millions)	35.7	56.5	93.1	135.1	213.4	304.5	355.6	401.7	442.1	479.3	512.8	56.4%	15.7%
Average daily time spent per DAU (minutes) . . .	19.5	23.1	26.4	29.8	33.2	35.7	39.2	42.8	46.5	49.6	51.9	14.2%	7.7%

Source: *iResearch*

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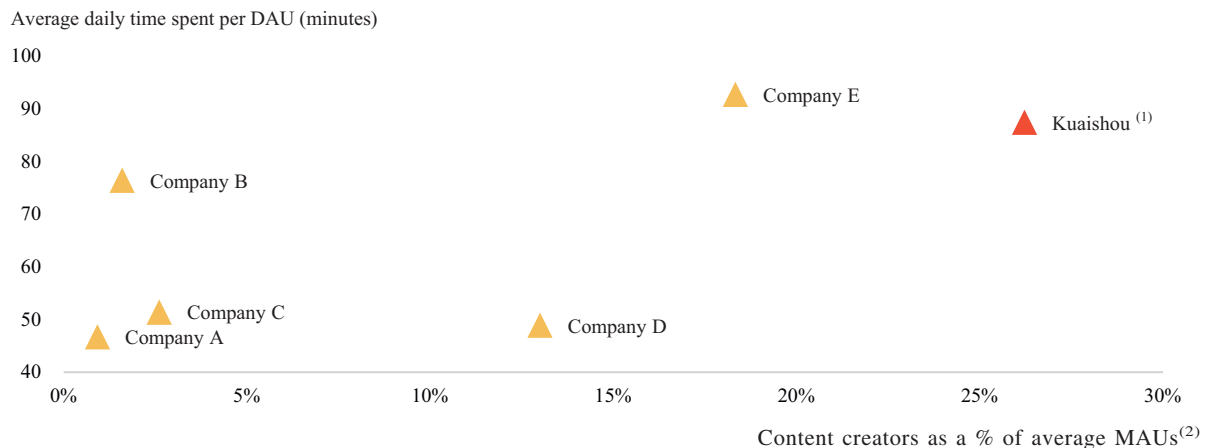
Landscape of Video-Based Social Platforms

Social platforms have evolved alongside the emergence of video. Traditional social networking platforms that were primarily text, pictures and audio-based have incorporated video content into their user experiences. At the same time, social and content platforms that are built on video, particularly short video and live streaming, have emerged. Video is playing an increasingly critical role globally in social activities on mobile devices. According to iResearch, video-based social platforms facilitate social interaction with video as the primary content format, and include the aforementioned types of social platforms.

Globally, Kuaishou is one of two video-based social platforms at scale primarily focused on both short video and live streaming content formats. In China, there are several social platforms that are built on short video or live streaming content. While there is some degree of user overlap among them, platforms differentiate themselves by providing differentiated user experiences and engagement.

Platforms with more diverse content and more vibrant content creation ecosystems are better equipped to address the evolving needs of users with different backgrounds and interests. As the below chart shows, Kuaishou has the most active content community among the top video-based social platforms in China in terms of percentage of average MAUs who create content, according to iResearch.

Comparison of Short Video and Live Streaming Platforms in China in the Six Months Ended June 30, 2020



Source: iResearch

(1) On Kuaishou App.

(2) Content creators calculated as the average number of unique user accounts per month that uploaded short videos plus the average number of unique user accounts per month that streamed content. MAUs refer to monthly active users by unique user accounts.

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Monetization Opportunities for Video-Based Social Platforms

Social platforms that have incorporated short video and live streaming have vibrant ecosystems where users engage on a diverse range of topics and user needs arise naturally. Traditionally, short video and live streaming platforms have monetized primarily through virtual gifting and online marketing services. However, as these platforms evolve, new market opportunities will arise across a multitude of industries, such as e-commerce, online games, online education, local services, among others. Platforms with stronger social attributes and interactions will give rise to stronger network effects and have the ability to foster a trusted ecosystem, a key factor in capturing monetization opportunities.

Live streaming virtual gifting

Live streaming users express their appreciation and support for streamers by gifting them virtual items. Virtual gifting also enriches interactions among streamers and their viewers.

Key drivers for the live streaming virtual gifting market include:

- *Increasing live streaming users and time spent.* Due to its real-time and social nature, live streaming is gaining popularity as a way for socializing and entertainment, leading to a fast-growing user base and time spent, which in turn leads to a larger virtual gifting market;
- *Expanding live streaming content offerings and improving quality.* As live streaming platforms evolve, the content genres are expanding to cover a wider range of interests appealing to a broader spectrum of user demographics. In addition, the advancement of live streaming technology lowers the barriers to live streaming content creation and improves content quality, leading to expanding content supply and better experiences for viewers; and
- *Users’ increasing willingness to pay.* Rising disposable income in China will further drive users’ willingness and ability to pay for quality content and reward content creators.

In China, live streaming virtual gifting revenue increased from RMB7.0 billion in 2015 to RMB140.0 billion in 2019, and is expected to reach RMB416.6 billion in 2025, growing at a CAGR of 19.9%, according to iResearch.

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China live streaming virtual gifting market size by revenue

(RMB in billions)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2015A- 2019A CAGR	2019A- 2025E CAGR
Live Streaming Virtual Gifting	7.0	24.5	52.9	86.6	140.0	182.6	223.9	269.2	317.7	367.2	416.6	111.8%	19.9%

Source: iResearch

Online marketing services

Online marketing services mainly comprise advertising, which is a natural means of monetization for short video and live streaming-based social platforms due to the broad user reach and diversity of content, interests and needs that naturally arise through user engagement.

Key drivers for mobile advertising through short video and live streaming include:

- *More users and increasing time share.* As short video and live streaming capture an increasing share of users’ time, advertisers are placing more importance to these marketing channels. According to iResearch, short video and live streaming account for 15.6% of a user’s daily time spent on the mobile internet in China in 2019, which is expected to reach 25.1% by 2025;
- *Better user understanding and targeting.* Massive user data generated from user engagement, advanced technologies implemented by short video and live streaming platforms to enable precise user understanding, and sophisticated advertising content development and distribution lead to improved advertising efficiency and effectiveness; and
- *Superior and innovative ads formats.* Compared with traditional ads formats, short video and live streaming can carry richer and more dynamic and interactive content in a succinct way, conveying the message in a more effective manner that is increasingly valued by advertisers.

In China, the mobile advertising market has grown from RMB99.8 billion in 2015 to RMB541.5 billion in 2019, and is expected to reach RMB1,706.1 billion in 2025, growing at a CAGR of 21.1%, driven by the proliferation of the mobile internet, according to iResearch. Short video and live streaming are increasingly popular channels for mobile advertising, accounting for 15.0% of the mobile advertising market in 2019 and reaching 27.3% in 2025.

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China mobile advertising market size by revenue

(RMB in billions)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2015A- 2019A CAGR	2019A- 2025E CAGR
Overall Mobile Advertising Market Size	99.8	175.0	255.0	366.3	541.5	678.7	853.2	1,051.3	1,261.0	1,478.6	1,706.1	52.6%	21.1%
Mobile Advertising Through Short Video and Live Streaming Platforms	0.1	1.6	3.2	20.1	81.4	135.1	197.1	267.8	336.0	397.3	465.3	399.3%	33.7%
As % of total market size	0.1%	0.9%	1.2%	5.5%	15.0%	19.9%	23.1%	25.5%	26.6%	26.9%	27.3%		

Source: iResearch

E-commerce

Short video and live streaming-based social platforms are effective for e-commerce due to social interactions and trust.

Key drivers for e-commerce on short video and live streaming-based social platforms include:

- *Trust between buyers and merchants* is more likely due to engagement around authentic content from real people. This is further supported by interactions and word-of-mouth recommendation as well as connections between users and content creators;
- *Richness of content and social interactivity* create natural opportunities for e-commerce. Additionally, short video and live streaming are effective means of raising product awareness and sales;
- *More users and increasing time share* expand user engagement scenarios and thus broaden the possibilities for e-commerce needs to arise and be addressed on such platforms; and
- *Development of e-commerce infrastructure in short video and live streaming platforms*, such as tools for store operations, logistics and customer service, enables merchants to leverage short video and live streaming platforms to sell and promote a greater variety of products more easily.

Live streaming e-commerce on short video and live streaming-based social platforms is becoming more common and will occur in more diverse ways over time. In China, the GMV of live streaming e-commerce is expected to increase from RMB416.8 billion in 2019 to RMB6,417.2 billion in 2025, growing at a CAGR of 57.7%. This represents 4.2% of China’s retail e-commerce market in 2019, and is expected to reach 23.9% by 2025.

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China retail e-commerce and live streaming e-commerce market size by GMV

(RMB in billions)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2019A- 2025E CAGR
Retail E-commerce . . .	3,803.9	4,681.6	6,232.4	7,907.8	9,904.3	10,936.1	13,624.9	15,939.3	18,828.8	22,476.8	26,832.0	18.1%
Live Streaming E-commerce.	N.A.	N.A.	16.8	120.5	416.8	1,229.9	2,051.4	3,101.7	4,202.9	5,316.6	6,417.2	57.7%
As % of total market size	N.A.	N.A.	0.3%	1.5%	4.2%	11.2%	15.1%	19.5%	22.3%	23.7%	23.9%	

Source: iResearch

Other monetization opportunities

The diversity of user needs that arise naturally through short video and live streaming platforms gives rise to numerous opportunities for monetization, including but not limited to online games, online education and local services:

- *Online games.* Short video and live streaming platforms partner with game producers and publishers to distribute games to gamers and game enthusiasts on these platforms;
- *Online education.* Short video and live streaming platforms provide an immersive and interactive experience, making them well suited to address users’ learning needs; and
- *Local services.* Authentic and personal interaction between users, as well as users and content creators, allows for the promotion and recommendation of local services in a natural manner.