
INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications, and from the market research report prepared by China Insights Consultancy Limited (“CIC”), which was commissioned by us. We believe that the information has been derived from appropriate sources such as CIC’s database, publicly available information sources, industry reports, as well as data obtained from surveys and other sources. We believe that we 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. The information from official government sources has not been independently verified by us, the Joint Sponsors, [REDACTED] or any of our or their respective directors, officers, representatives, employees, agents or professional advisers, or any other person or party involved in the [REDACTED], and no representation is given as to the completeness, accuracy, or fairness of such information. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

CIC was commissioned to conduct research, provide an analysis of, and to produce a report (the “CIC Report”) on, the social platform industry in China, and other related economic data, at a fee of US\$95,000. The commissioned report has been prepared by CIC independent of the influence of the Company and other interested parties. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

CIC is an investment consulting company originally established in Hong Kong. Its services include industry consulting services, commercial due diligence, strategic consulting, and so on.

CIC undertook both primary and secondary research using a variety of resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources, including the National Bureau of Statistics of China, Chinese Government releases, annual reports published by relevant industry participants, industry associations, CIC’s own internal database, etc.

The market projections in the commissioned report are based on the following key assumptions: (i) that the overall global social, economic, and political environment is expected to maintain a stable trend over the next decade; (ii) that related key industry drivers are likely to continue driving growth in China’s social media industry during the forecast period; and (iii) that there is no extreme force majeure or set of industry regulations in which the market situation may be affected either dramatically or fundamentally. The reliability of the CIC Report may be affected by the accuracy of the foregoing assumptions and factors.

EVOLVEMENT OF SOCIAL PLATFORMS IN CHINA

China has the world’s largest base of internet users, which reached 989.0 million in 2020, with almost all of its netizens using some form of social platform to communicate and share information on their daily lives, according to the CIC Report. Social platforms are where users virtually connect with each other through the creation, sharing, or exchanging of ideas, interests, and other content, often in the form of text, picture, audio, video or other content formats. Social platforms include social media platforms, social networking platforms, and live streaming platforms.

INDUSTRY OVERVIEW

The evolution of social platforms has been fueled by the human impulse to communicate and by the advancements in digital technologies. Social platforms have shifted from desktop to mobile and continued to advance into more diversified and engaging content formats. In recent years, platforms focusing on short-form video sharing and live streaming have become more prevalent. With a well-balanced mix of content formats, encompassing text, picture, video, live streaming, audio and other formats, social platforms are capable of attracting users to create content and engage in social interactions.

Driven by the increasing popularity of social platforms, the penetration rate for the social platforms, measured by the ratio of social platform users to all mobile users, has already come to hover near the 100% mark in 2020.

SOCIAL MEDIA PLATFORMS SERVE AN IMPORTANT ROLE IN PEOPLE’S DAILY LIVES

A social media platform is a subset of social platform that allows users to create, discover and distribute diversified content in a public forum. More people are turning to social media platforms to follow breaking news, discuss hot topics, and browse any content of personal interest, among other activities. Social media platforms are public in nature and enable every user, including celebrity, organization, or ordinary people, to publicly discuss events of interests and debate social issues and concerns. At the same time, social media platforms cover comprehensive topics such as news, art, fashion, lifestyle, travel, game and entertainment, etc.

Attributable to the important role social media platforms serve in people’s daily lives, the user base of social media platforms in China has been expanding at a rapid pace. The combined total user base for China’s social media platforms in terms of MAUs increased from 488.9 million in 2016 to 738.3 million in 2020, representing 74.9% of the total number of mobile internet users in China in 2020, according to the CIC Report. As the penetration of social media platforms have already reached a relatively high level, the MAUs of social media platforms is anticipated to increase moderately in the coming years at a CAGR of 3.7% from 2020 to 2025 to 883.4 million by 2025.

MAJOR TRENDS FOR SOCIAL MEDIA PLATFORMS IN CHINA

The major trends for the social media platforms in China include:

Diversification of content formats

Content made available in different formats is suitable for meeting users’ different preferences and consumption needs. For example, text is more efficient when distributing breaking news and presenting thought-provoking content. At the same time, people increasingly enjoy consuming content in richer and more interesting formats, such as video, which can capture moments in a real-time, rich multi-sensory and condensed short-form manner. Therefore, the continuous diversification of content formats, including text, picture, video and live streaming, is expected to lead to an increase in both content generation and content consumption.

INDUSTRY OVERVIEW

KOL gaining more influence

Top content creators may often become the authoritative figures on certain topics or areas of interests and the opinion leaders among their followers, and therefore creating a considerable amount of influence on their followers. The influence on followers presents significant commercial potential, which attracts more users to become influencers or KOLs by continuously creating high-quality content and engaging with followers. The resources and tools provided by social media platforms are also catalyzing this trend by making it easier for talented content creators to stand out.

More users from the younger generation

Adoption by younger generation is one of the driving forces behind the growth of social media platforms. In China, many millennials and younger generations of users are increasingly seeking novel ways to express themselves and connect with other people so as to share their individual values and interests. Social media platforms serve as an ideal channel for millennials and younger generations of users to engage with others, and to develop a sense of community based on a wide range of topical categories offered on these platforms. At the same time, as younger users are relatively more likely to access social media on their mobile devices at greater frequencies, and often do so over fragmented periods of time, condensed content and short format of content are therefore expected to gain more popularity among these users.

Prevalence of social e-commerce

Social e-commerce emerges as an important segment of China’s social media platforms, which reflects a trend for purchasers to share experiences with a broader audience online, as well as a growing appetite for authentic real-world information shared by others virtually. Social e-commerce, such as influencer driven purchases and live streaming e-commerce, encourages users to share their experiences and interact with other purchasers and merchants online. At the same time, KOLs who seek to monetize their social assets are incentivized to contribute more high-quality content for these platforms. As a result, the emergence and increasing prevalence of social e-commerce is expected to further enrich the content ecosystem of and drive new traffic to social media platforms, and to create new monetization opportunities accordingly.

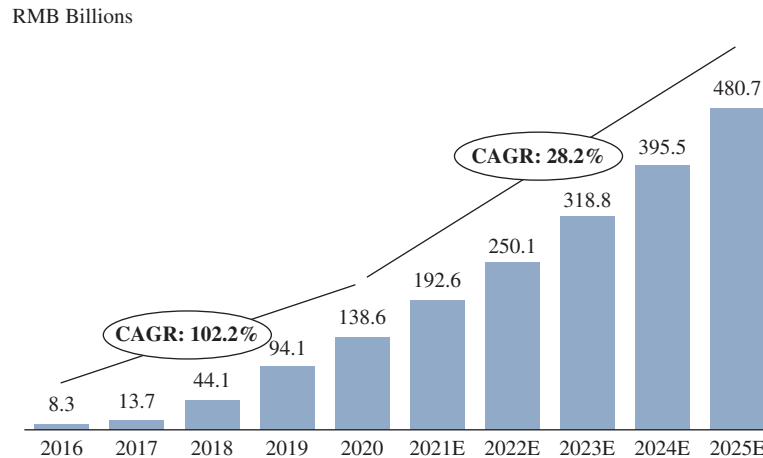
TRENDS AND DRIVERS FOR SOCIAL MEDIA ADVERTISING

As social media platforms are gaining more popularity, they are tapping into more monetization opportunities. Advertising has become the most mature form of monetization for social media platforms, according to the CIC Report. Compared with traditional advertising, social media advertising is more effective in terms of reach, targeting and delivery results for advertisers.

As a result of their greater efficiency, the advertising revenue generated by social media platforms increased from RMB8.3 billion in 2016 to RMB138.6 billion in 2020, representing a CAGR of 102.2%, and is anticipated to further increase to RMB480.7 billion in 2025 at a CAGR of 28.2% during the period from 2020 to 2025.

INDUSTRY OVERVIEW

Advertising Revenue of Social Media Platforms, China, 2016-2025E



Source: CIC Report

Social media advertising is becoming more important as a monetization channel, due to its ability to attract users and retain their attention. The overall market share of social media advertising in the online advertising market is therefore anticipated to keep expanding. The market share of social media platforms in the online advertising industry in terms of revenues expanded from 2.9% in 2016 to 18.2% in 2020, and is expected to increase even further to 26.1% in 2025, according to the CIC Report.

The growth of social media advertising has been fueled by the expansion of user base and an increase in user engagement of social media platforms as well as innovations in advertising and marketing solutions. Ongoing advancements in mobile internet infrastructure, such as 5G, are expected to drive the growth of the user base and user engagement for social media platforms, enabling users to consume and share digital content more efficiently and conveniently. In addition, more interactive advertising and marketing solutions are expected to emerge by leveraging big data and AI technologies, so as to further attract wallet shares from advertisers.

The social media advertising market in China is now demonstrating the following key trends and drivers:

- **Preference for targeted advertising solutions.** Social media advertising helps advertisers more effectively and accurately reach their target customers as well as build up and improve their brand image as they interact with users. Advertisements on social media platforms enable advertisers to better reach their audience based on factors such as demographics, gender, and interests. More and more advertisers are therefore planning to spend more of their budgets on social media advertising in the years to come due to its greater efficiency, according to the CIC Report.

INDUSTRY OVERVIEW

- **Rise of KOL marketing.** KOLs can have a strong influence on audiences’ purchasing decisions, which reflects the fact that people tend to give more credit to those words or experiences shared by the people they follow and trust. Advertisers are increasingly willing to adopt the KOL marketing strategy, which allows them to reach specific audiences at a relatively low cost while stimulating discussions and sharing in a positive feedback loop. MCNs also contribute to maximizing the revenue-generating impact and the overall development of social media advertising, since they facilitate closer cooperation among advertisers, KOLs, and social media platforms.
- **Demand for integrated marketing solutions.** Advertisers are now seeking a full stack solution that includes branding ads and performance-based ads to help them simultaneously build brand awareness, generate enhanced interest, advance sales opportunities and inspire customer loyalty. Depending on their budgets and demands, different advertisers may seek to implement a mix of advertising and marketing services, including display ads, in-stream feeds, search ads, KOL content marketing and other products and services. At the same time, advertisers will favor solutions where each advertisement is traceable, in terms of, for example, the number of views and clicks, the number of clicks leading to sales, and the number of comments or shares, etc., in order to better evaluate the actual impact of any marketing campaign.
- **Innovations in solutions.** More innovative advertising and marketing products and services are expected to emerge in the future, especially in the field of content marketing or KOL marketing. Social media platforms are offering a more diversified array of advertising and marketing solutions that use big data and AI technologies, enabling advertisers to directly and effectively interact and engage with their target audience. At the same time, social media platforms are actively building their ecosystem to empower celebrities, MCNs, and KOLs with marketing capabilities such as content generation tools and user interaction functions, as well as a diverse selection of advertiser and commercial resources.

KEY SUCCESS FACTORS

The following key success factors affect the performance of social media platforms in the online social media industry in China.

The ability to expand, retain and energize the user base and increase user engagement to create network effects

Social media platforms rely on network effects where user engagement attracts more new users, which acts as a multiplier in generating activities and traffic on social media platforms. A social media platform that enjoys a large, active and engaged user base is more likely to attract content creators and commercial partners who in turn contribute more content to the platform in a virtuous cycle. Early entrants in the market generally enjoy the advantage of strong brand recognition and large user base, and therefore have more leverage in their relationships with advertisers and other customers. Successful social media platforms typically have the ability to continuously launch innovative features and adopt advanced technologies to enlarge their user base, increase user engagement and attract influencers and advertisers to the platform, while capturing additional commercial opportunities.

INDUSTRY OVERVIEW

Comprehensive coverage of content formats and categories

Social media platforms with comprehensive content categories and formats, and vibrant content ecosystems are better positioned to address the evolving needs of users with different backgrounds and interests. A diversified mix of content formats can better match users’ preferences in different scenarios. A wider coverage of content categories can attract users with a variety of interests and can therefore increase the scale of the active user base. An engaging content ecosystem, powered by comprehensive content formats and categories, is vital for the success of social media platforms to build thriving social scenes bolstered by robust communication and the frequent sharing of high-quality content by users.

Sustainable supply of rich, interesting and comprehensive content

A sustainable supply of content will attract users, which is important to the continued success of social media platforms. Social media platforms develop new tools and resources to lower the barrier and cost of content generation, and plan new community management strategies to further increase user activity. The capacity of social media platforms to develop and adopt new technologies and new tools to facilitate active user interactions within their ecosystem empowers these platforms to be better positioned to excel among their competitors. In addition, strong relationships with various types of content creators such as KOLs, MCNs, celebrities, and organizations are vitally important for social media platforms if they hope to ensure the sustainable supply of high-quality and interesting content.

The ability to develop innovative and effective advertising technologies and solutions

Social media platforms that can constantly provide innovative and effective advertising technologies and solutions are more likely to be favored by advertisers. The ability to leverage AI and big-data analytics to develop a deeper understanding of individual users is becoming growingly important. Emerging business models such as KOL marketing and live streaming e-commerce have shown new monetization opportunities. Therefore, a social media platform that has strong technological capabilities, comprehensive product offerings and a mature user ecosystem is better positioned to compete in the market for online social media.

COMPETITIVE LANDSCAPE FOR SOCIAL PLATFORMS

Driven by the increasing popularity of social platforms, the penetration rate for the social platforms, measured by the ratio of overall social platform users to all mobile users, has already come to hover near the 100% mark in 2020. New user acquisition has been one of the key challenges that each of the social platforms faces and accordingly, established social platforms with a large user base may experience weak growth in user base. In addition to expanding user base, social platforms mainly leverage the network effect to build their competitive moat.

Weibo is one of the top 5 social platforms in China in terms of MAUs and DAUs in June 2021, according to the CIC report.

INDUSTRY OVERVIEW

Ranking of China’s Social Platforms, June 2021

Ranking	Platform	Platform Type	MAUs (in millions)	DAUs (in millions)
1	Platform A ⁽¹⁾	Social network	1,251	813
2	Platform B ⁽²⁾	Social media	645	377
3	Platform C ⁽³⁾	Social network	591	289
4	Weibo	Social media	566	246
5	Platform D ⁽⁴⁾	Social media	506*	293*

Source: CIC Report

Notes:

- * Representing average MAUs and DAUs for the three months ended June 30, 2021.
- (1) Platform A is a social network platform that provides instant messaging services for smart terminals and enables users to send free voice messages, videos, pictures and texts over the network. It is owned by a Hong Kong-listed company headquartered in Shenzhen, was launched in 2011 and originated from mobile instant messaging.
- (2) Platform B is a social media platform that hosts a variety of short-form videos and enables users to create short videos, which often feature music in the background. It is owned by a private company headquartered in Beijing, was launched in 2016 and originated from a variety of short-form videos.
- (3) Platform C is a social network platform that provides Internet-based instant messaging services and supports multiple functions such as online chat, group chat, video chat, file transfer and online social games. It is owned by a Hong Kong-listed company headquartered in Shenzhen, was launched in 1999 and originated from PC instant messaging.
- (4) Platform D is a social media platform that hosts a variety of short-form videos and focuses on recording and sharing people’s daily life. It is owned by a Hong Kong-listed company headquartered in Beijing, was launched in 2011 and originated from a variety of short-form videos.

Weibo offers the most comprehensive coverage of content categories and content creators among social platforms in China, according to the CIC Report. In February 2021, CIC calculated the coverage ratio of multiple content categories and content creators among leading social platforms in China. The types of content creators include government, media, celebrities, sports (basketball, football, and e-sports), and fast-moving consumer goods brands. As compared to other social platforms, Weibo covers all selected categories, and has the highest coverage ratio among leading social platforms in terms of the content categories and content creators.

Weibo offers the most comprehensive content formats among social platforms in China, according to the CIC Report. In February 2021, CIC tested the availability of content format among leading social platforms. All the six content formats, namely text only, text and image, topic#, audio, video, and live streaming, are available on Weibo, and Weibo has the most balanced distribution of different content formats among leading social platforms.

Weibo has the largest celebrity and KOL network among social platforms in China, according to the CIC Report. In February 2021, CIC calculated the coverage ratio of a sample of top celebrities, defined as the persons with the top 50 Baidu search index on the day of February 18, 2021, among leading social platforms. As compared to other social platforms, Weibo has the highest coverage ratio. In February 2021, CIC calculated the coverage ratio of a sample of top KOLs among leading social platforms. The sample list was collected from several KOL lists issued by reputable research firms. As compared to other social platforms, Weibo has the highest coverage ratio.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE FOR SOCIAL MEDIA PLATFORMS

Those social media platforms with a large active user base and strong marketing capabilities are regarded as competent commercial partners to advertisers. Early entrants in the market typically have well established brand recognition with a large number of loyal users, therefore creating high entry barriers against newcomers. Advertisers, when deciding which platforms to use for marketing, normally consider key factors such as scale of reach, level of engagement, format availability, and pricing. The MAUs and DAUs of a social media platform generally reflect the size of its user base and measure the loyalty of users to that platform. With a large and active user base, social media platforms are better able to attract advertisers who seek to engage directly with their audiences in gaining broad-based and targeted exposure.

Weibo is one of the top 3 social media platforms in China in terms of MAUs and DAUs in June 2021, according to the CIC Report. Among the leading social media platforms in China, some focus on specific content formats such as video and live streaming, while others provide comprehensive content formats to cater to the diverse user needs. Platforms with more diverse content formats and more vibrant content creation ecosystems are better equipped to address the evolving user needs with diverse backgrounds and interests.

Ranking of China’s Social Media Platforms, June 2021

Ranking	Platform	MAUs (in millions)	DAUs (in millions)	Total Revenue in 2020 (in US\$ billion)	Total Advertising Revenue in 2020 (in US\$ billion)
1	Platform B ⁽¹⁾	645	377	N/A	N/A
2	Weibo	566	246	1.7	1.5
3	Platform D ⁽²⁾	506*	293*	9.1	3.4
4	Platform E ⁽³⁾	237*	63*	1.8	0.3
5	Platform F ⁽⁴⁾	121	40	N/A	N/A

Source: CIC Report

Notes:

- * Representing average MAUs and DAUs for the three months ended June 30, 2021.
- (1) Platform B is a social media platform that hosts a variety of short-form videos and enables users to create short videos, which often feature music in the background. It is owned by a private company headquartered in Beijing, was launched in 2016 and originated around a variety of short-form videos. CIC is unable to reliably estimate the total revenue and advertising revenue of Platform B as it is privately owned.
 - (2) Platform D is a social media platform that hosts a variety of short-form videos and focuses on recording and sharing people’s daily life. It is owned by a Hong Kong-listed company headquartered in Beijing, was launched in 2011 and originated from a variety of short-form videos.
 - (3) Platform E is a social media platform that hosts videos on various themes, including anime, music, dance, technology and video games, and enables users to submit, view and add overlaid commentary on videos. It is owned by a U.S. and Hong Kong-dual-listed company headquartered in Shanghai, was launched in 2009 and originated from videos of animation, comics and games. The total revenue and advertising revenue of Platform E were derived from its 2020 financial report upon currency translation at a rate of RMB6.5250 to US\$1.0000.
 - (4) Platform F is a social media platform that enables users to share various consumption experiences and lifestyles, such as information about beauty, sports, travel, hotels and restaurants. It is owned by a private company headquartered in Shanghai, was launched in 2013 and originated from sharing of overseas shopping experience. CIC is unable to reliably estimate the total revenue and advertising revenue of Platform F as it is privately owned.

See also “Business — Competition” for a discussion of the competitions faced by us from a broader array of competitors.

INDUSTRY OVERVIEW

MAJOR CHALLENGES FACED BY THE SOCIAL PLATFORMS AND SOCIAL MEDIA PLATFORMS IN CHINA

Competition for user acquisition and user engagement

Driven by the increasing popularity of social platforms, the penetration rate for the social platforms, measured by the ratio of overall social platform users to all mobile users, has already come to hover near the 100% mark in 2020. Currently, almost every mobile user uses some forms of social platform to stay current or connect with others. As a result, new user acquisition has been one of the key challenges that each of the social platforms faces and accordingly, established social platforms with a large user base may experience weak growth in user base. In addition to expanding user base, social platforms mainly leverage the network effect to build their competitive moat. Therefore, social platforms and social media platforms need to devote significant resources to retain existing users and content creators, and improve the quality and diversity of content ecosystems, such as content formats and categories, in order to continuously attract and engage users and boost their time spent. See “Risk Factors – Risks Relating to Our Business – If we fail to grow our active user base, or if user engagement on our platform declines, our business, financial condition and operating results may be materially and adversely affected.” “Risk Factors – Risks Relating to Our Business – If our users and platform partners do not continue to contribute content or their contributions are not valuable to other users, we may experience a decline in user traffic and user engagement.” and “Risk Factors – Risks Relating to Our Business – If we are unable to compete effectively for user traffic or user engagement, our business and operating results may be materially and adversely affected.”

In recent years, social platforms are exploring and developing new monetization opportunities such as KOL marketing, live streaming e-commerce and other types of social e-commerce. However, as their business models evolve, social platforms may influence consumers’ online-shopping habits since certain users may shift to social platforms from other types of e-commerce platforms. As a result, such exploration of new monetization models may subject social platforms to competition from other types of online businesses or industries.

Technology

Social media platforms that can constantly provide innovative and effective advertising technologies and solutions are more likely to be favored by advertisers. More innovative advertising and marketing products and services are expected to emerge in the future, especially in the field of content marketing or KOL marketing. Therefore, social media platforms need to continuously enhance their technology capabilities to capitalize on the latest trends to compete in the market for online social media. Furthermore, technology infrastructure is critical to providing users, customers and platform partners access to social media platform, particularly during major events when activities on the platforms increase substantially. A social media platform must continue to upgrade and expand its technology infrastructure to keep pace with the growth of its business and to ensure that technical difficulties do not detract from user experience or deter new users, customers or platform partners from accessing its platform. See “Risk Factors – Risks Relating to Our Business – We generate a substantial majority of our revenues from online advertising and marketing services. If we fail to generate sustainable revenue and profit through our advertising and marketing services, our result of operations could be materially and adversely affected.” “Risk Factors – Risks Relating to Our Business – User growth and engagement depend upon effective interoperation with operating systems, networks, devices, web browsers and standards that we do not control.” and “Risk Factors – Risks Relating to Our Business – Our business and operating results may be harmed by service disruptions, or by our failure to timely and effectively scale and adapt our existing technology and infrastructure.”

INDUSTRY OVERVIEW

Regulations

The PRC government has, in recent years, heightened its oversight over various aspects of the operation of social platforms and social media platforms as well as the provision of online content in China in certain areas, including but not limited to, cybersecurity, protection of personal information, review of illegal and inappropriate content, and real-name authentication on live broadcasting businesses and online mobile games and etc. Internet information service providers are required to ensure that the large amount of content available on their platforms and the operation and services fully comply with relevant PRC laws and regulations. Social media platforms are also required to monitor the advertising content shown on their platforms to ensure that such content is true and accurate and in compliance with relevant PRC laws and regulations. Due to these intensified laws and regulations, social platforms may be severely affected in the short term since some advertisers may no longer be able to conduct marketing activities or display advertisements on social platforms. As a result, social platforms may need to invest additional resources to continuously develop new clients. See “Risk Factors – Risks Relating to Our Business – Advertisements shown on our platform may subject us to penalties and other administrative actions.,” “Risk Factors – Risks Relating to Our Business – Privacy concerns relating to our products and services and the use of user information could damage our reputation, deter current and potential users and customers from using Weibo and negatively impact our business.,” and “Risk Factors – Risks Relating to Our Business – User misconduct and inappropriate content may adversely impact our brand image, business and results of operations, and we may be held liable for information or content displayed on, retrieved from or linked to our app or website or distributed to our users.”