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## INDUSTRY OVERVIEW

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*The information and statistics set forth in this section and other sections of this Document are derived from government publications, other publications and market research report prepared by Frost & Sullivan, which was commissioned by us.*

*The information from official government sources has not been independently verified by the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of their respective directors and advisors, or any other persons or parties involved in the [REDACTED] and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.*

### INTRODUCTION

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct research and analysis on, and to produce a report on, the drama series market in China at a fee of RMB424,000 which we believe reflects the market rates for reports of this type. The Frost & Sullivan Report has been prepared by Frost & Sullivan independently without any influence from us or other interested parties. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York and its services include, among others, industry consulting, market strategic consulting and corporate training. Its consulting team has been tracking the latest market trends in automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

### SOURCE OF INFORMATION

Frost & Sullivan conducts both detailed primary research which involves discussion regarding the status of the industry with certain leading industry participants, and secondary research which includes reviewing company reports, independent research reports and data based on its own research database.

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

All statistics are based on information available as of the date of this report and have taken into account the potential impact of the COVID-19 outbreak. Other sources of information, including government, industry associations or market participants, have provided some of the information on which the analysis or data is based. All the information about our Company is obtained from our Company's management interview. The information of our Company has not been independently verified by Frost & Sullivan.

### THE VIDEO-BASED CONTENT MARKET IN CHINA

Content, especially quality content, is always pursued by audience. In particular, video-based content (consisting of drama series, variety shows, films and short video content), attributable to its intuitive and vivid way to interact with audience, has become a critical intermediary to deliver quality content. In China, video-based content can be monetized in three ways, including content licensing, content marketing and content subscription. Content

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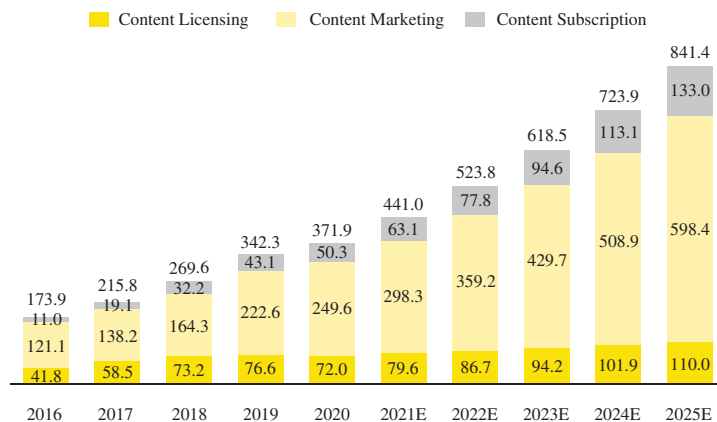
is fundamental to the entire video-based content market. Quality content can generate profitable licensing revenue, and further expand revenue stream to include revenues from content marketing and content subscription.

Content licensing refers to the licensing of broadcasting rights of video-based content to TV channels, online video platforms and distributors and the generation of licensing fees. Content marketing refers to the integrated marketing planning and campaign services utilizing video-based content and the generation of marketing service fees. Content subscription refers to the membership subscription to online video platforms and the generation of membership subscription fees.

According to Frost & Sullivan, China's video-based content market experienced rapid growth at a CAGR of 20.9% from RMB173.9 billion in 2016 to RMB371.9 billion in 2020. Empowered by increasing demands, the total market size of video-based content is expected to reach to RMB841.4 billion by 2025, representing a CAGR of 17.7% from 2020 to 2025.

### Video-based Content Market by Category in China RMB Billion, 2016-2025E

CAGR	Total	Content Licensing	Content Marketing	Content Subscription
2016-2020	20.9%	14.6%	19.8%	46.2%
2020-2025E	17.7%	8.9%	19.1%	21.5%



Source: Frost & Sullivan Report. Frost & Sullivan conducted primary and secondary research to estimate the market size, including reviewing the annual reports and prospectuses of publicly listed video-based content broadcasting channels and conducting expert interviews with such broadcasting channels.

Note:

- (1) The total revenue of video-based content include revenues generated through video-based content from content licensing, content marketing and content subscription.

### DRAMA SERIES INDUSTRY IN CHINA

Despite the evolvement of the video-based content market from TV channel to online video platform, drama series has always been audience's ideal choice of content, throughout years of historical market developments across the world. In China's video-based content market, drama series is also one of the most important types of content.

To attract new users, maintain users' activeness and further boost the revenue growth, online video platforms have been investing heavily on content procurement and production. According to Frost & Sullivan, online video platform's cost on procurement of drama series and production of web drama series accounted for 50.5% of the online video platforms' total cost on content procurement and production in 2020.

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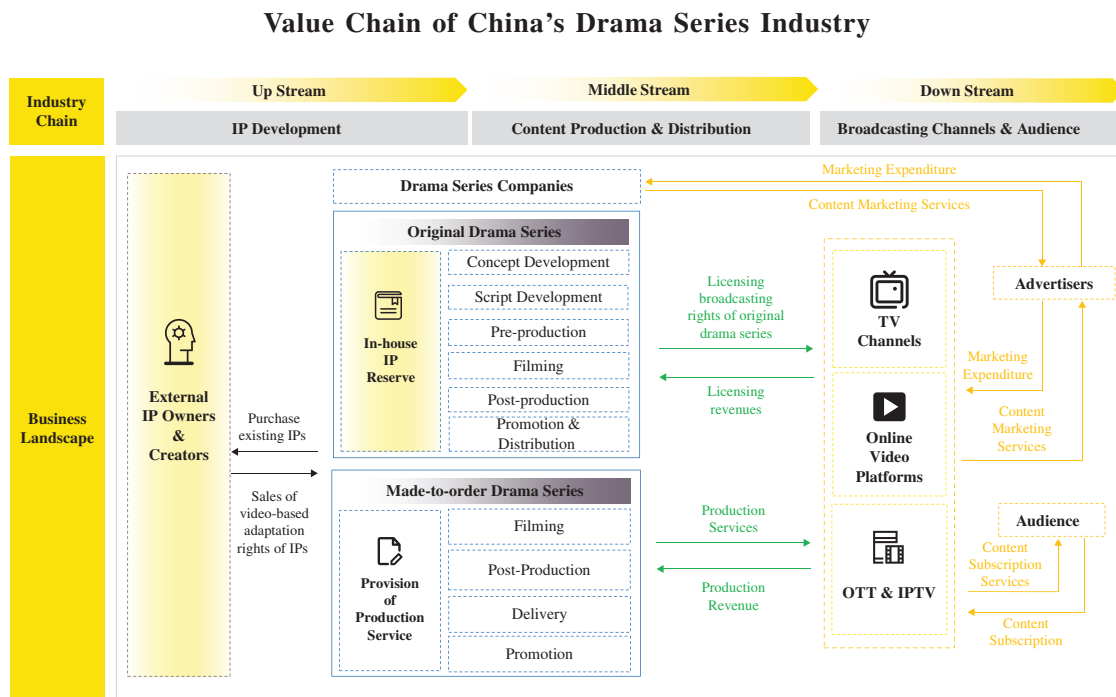
In particular, drama series of premium content are highly valued by distribution channels. Premium content refers to high-quality/top-ranked drama series possessing one or more of the following characteristics: experienced casts, skilled production crew, significant investment on production, sizable broadcasting right licensing fee, and superior viewership/view count performance. Successful serialization of premium drama series, including sequels or coherent-themed drama series can achieve high commercial value, while successful serialization production is relatively rare in the industry.

According to Frost & Sullivan, the total number of premium drama series in China is 36, 31 and 35 in 2018, 2019 and 2020, respectively, accounting for 7.7%, 6.2% and 6.9% of the total number of drama series in the respective years. Although there were more than 22,500 drama series production companies in 2020, only limited number of players possess the ability to produce premium drama series.

China's drama series industry comprised of two distinct segments that are traditionally distinct, namely TV series and web series. TV series is drama series with distribution license issued by the National Radio and Television Administration (NRTA), and can be broadcast on both TV channels and online video platforms. Web series, on the other hand, is drama series filed to and reviewed by NRTA, which can only be broadcast on online video platforms. However, as the review standards for TV series and Web series have been converging and the preferred platforms used by audience have gradually shifted from TV channels towards online video platforms, the distinctions between TV series and Web series have virtually disappeared.

### China's Drama Series Industry Value Chain

According to Frost & Sullivan, the value chain of China's drama series industry is illustrated as below:



Source: Frost & Sullivan Report

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### *Up Stream: IP Development*

The production of drama series starts from IP development. IP can be (i) developed in-house by contracted scriptwriters and employees; or (ii) procured directly from external third parties, including existing literature, online games, animation and films, among others, and adapted/developed in-house. Companies who produce premium original drama series generally own strong IP reserve.

### *Middle Stream: Content Production and Distribution*

Content production and distribution is of importance in the whole business landscape. There are two major types of drama series companies in the industry. The first type refers to companies focusing on original drama series. Such companies primarily develop original IP, take the primary responsibility in the development, production and distribution of original drama series, and generate revenue by licensing broadcasting rights of original drama series. They possess both upstream and middle stream capabilities and therefore have strong bargaining power against downstream customers leveraging on their original IP reserve, accumulated production experience and skills. The second type refers to companies focusing on producing made-to-order drama series for downstream customers, and in turn generate fixed production revenue. Such companies are middle stream players in the business landscape and do not own the IP of the made-to-order drama series they produce.

### *Down Stream: Broadcasting Channels and Audience*

Broadcasting channels of drama series mainly include online video platform channels and TV channels. For details, see “– Channels of Drama Series in China”.

As the production of drama series is not a standardized practice and the history of the drama series industry is relatively limited, talented and experienced producers, directors, scriptwriters and management teams in China are extremely limited. Therefore, drama series production companies possessing capabilities to develop original IP, integrate talent resources, consistently produce and deliver premium drama series are rare and highly valued in China.

### **Key Cost Components of Drama Series Production Companies in China**

The cost of production and distribution of drama series mainly includes cast personnel costs, production costs, cost to procure and develop scripts, post-production costs and other miscellaneous materials and services required in the process of filming and post-production. According to Frost & Sullivan, the total cost of drama series production increased from approximately RMB25.9 billion in 2016 to approximately RMB33.3 billion in 2020, representing a CAGR of approximately 6.6%. The cost structure of drama series production usually varies depending on the genre. According to Frost & Sullivan, the cost needed to produce one modern drama series normally ranges from RMB50.0 million to RMB150.0 million and the cost needed to produce one costume drama series normally ranges from RMB80.0 million to RMB300.0 million, while premium drama series typically requires higher costs. The above cost ranges are derived from the sample of expert interviews conducted by Frost & Sullivan, which may have limitations to cover all the cost of drama series on the market. In addition, in the past several years, post-production cost as a percentage of total cost normally stays from 10% to 15% and marketing and distribution cost as a percentage of total cost normally stays at approximately 10%. Actors' remuneration as a percentage of total cost experienced changes due to the policies issued by regulatory departments in recent years. For example, the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》) issued on October 31, 2018 imposes restrictions on the maximum compensation that actors can individually and collectively receive as a percentage

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of the total investment of a drama series. As a result, the total actors' remuneration as a percentage of total cost decreased from approximately 60.0% prior to 2018 to less than 40% in recent years, among which the remuneration of the main actors is less than 70% of the total actors' remuneration.

### Channels of Drama Series in China

The online video platform industry has experienced rapid growth since 2014. The total number of online video platform users in China surged to 724.0 million as of the end of 2020, accounting for approximately 73.2% of the total number of Internet users in 2020. In 2025, the total number of online video platform users is expected to reach 978.0 million. In addition, the number of paid subscribers to online video platforms is expected to increase from 366.2 million in 2020 to 557.3 million in 2025.

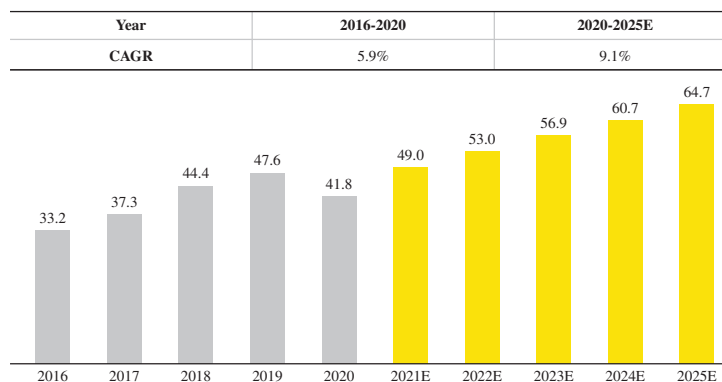
The online distribution market is very concentrated with very few online video platforms, including iQIYI, Tencent Video, Youku and Mango TV. The aggregate market share of the top four online video platforms accounted for 85.3%, 86.7% and 87.0% of the total market in 2018, 2019 and 2020, respectively. In anticipation of the intensified market competition, online video platforms have a strong motivation to procure premium content.

TV channels are also important distribution channels for drama series. The TV channel market is fairly concentrated in China, with notable TV stations accounted for a majority of TV viewership share, including China Central Television (CCTV), Hunan TV, Dragon TV, Jiangsu TV, Beijing TV and Zhejiang TV.

### Drama Series Licensing Market in China

The market size of drama series licensing in China reached RMB41.8 billion in 2020 representing a CAGR of 5.9% from 2016 to 2020 and is expected to reach RMB64.7 billion by 2025 with a CAGR of 9.1% from 2020 to 2025.

**Market Size of Drama Series Licensing Market in China**  
RMB Billion; 2016-2025E



*Source:* Frost & Sullivan Report. Frost & Sullivan conducted primary and secondary research to estimate the market size, including reviewing public reports issued by the NRTA and independent third party research groups, and conducting expert interviews with leading drama series production and distribution companies and leading drama series broadcasting platforms.

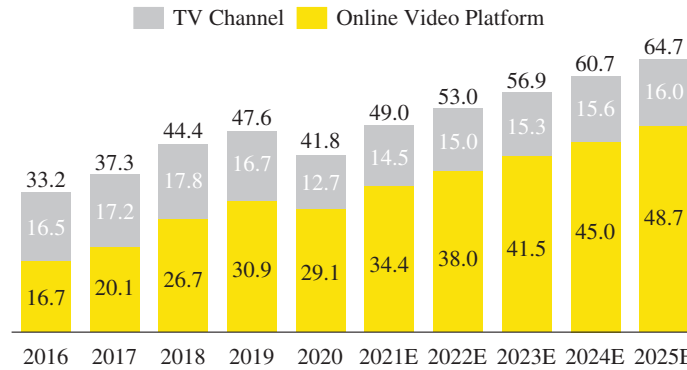
*Note:*

- (1) The market size of drama series licensing refers to the licensing of drama series and IP derivatives.

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### Market Size of Drama Series Licensing Market by Channel in China RMB Billion; 2016-2025E

CAGR	Total	TV Channel	Online Video Platform
2016-2020	5.9%	-6.3%	14.9%
2020-2025E	9.1%	4.7%	10.8%



*Source:* Frost & Sullivan Report. Frost & Sullivan conducted primary and secondary research to estimate the market size, including reviewing the public reports issued by the NRTA and independent third party research groups, and conducting expert interviews with leading drama series production and distribution companies and leading drama series broadcasting platforms.

*Note:*

- (1) The market size of drama series licensing refers to the licensing of drama series and IP derivatives.

IP derivative licensing is another way to further monetize the commercial value of drama series and its IP. IP derivative licensing is leveraged on existing drama series IPs and the audiences accumulated by such drama series IPs, IP derivative licensing include, for example, marketing services through cooperation with consumer goods brands to produce and sell the drama series IP-related products. IP derivative licensing can diversify and maximize the commercial value of drama series and ultimately develop an ecosystem that encompasses highly-engaged users, quality content, and business partners. According to Frost & Sullivan, the total revenue generated from drama series IP derivative licensing is expected to reach RMB6.7 billion by 2025 in China, representing a CAGR of 14.6% from 2020 to 2025.

### Content Marketing Market in China

Video-based content marketing is a strategic marketing approach to design and deliver tailored marketing content to help advertisers retain and attract demographic audience and stimulate additional purchase. Video-based content marketing can typically be conducted through online video platforms, short video platforms and TV channels. Video-based content marketing in China experienced rapid growth at a CAGR of 19.8% from RMB121.1 billion in 2016 to RMB249.6 billion in 2020. By 2025, video-based content marketing in China is expected to reach RMB598.4 billion, representing a CAGR of 19.1% from 2020 to 2025.

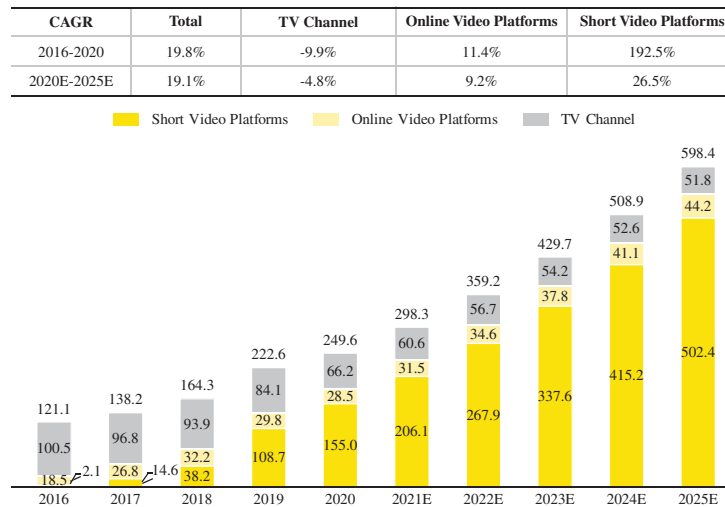
Drama series production companies are well positioned to serve the broad needs of advertisers in innovative and interactive ways leveraging on their abilities to (i) reach to a broad coverage of customer base through popular drama series and therefore provide effective brand marketing services for advertisers; and (ii) design and produce video-based marketing content in more customized forms, including short video and mini drama series on social platforms. Therefore, it is expected that drama series production companies' content marketing business will achieve further growth going forward.



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In particular, as drama series can reach audience through all three content marketing channels (including online video platforms, short video platforms and TV channels), content marketing utilizing drama series can more effectively create commercial value for advertisers.

### Video-based Content Marketing Market by Channel in China RMB Billion; 2016-2025E



Source: Frost & Sullivan Report. Frost & Sullivan conducted primary and secondary research to estimate the market size, including reviewing the annual reports and prospectuses of publicly listed video-based content broadcasting channels and the public reports issued by the NRTA, and conducting expert interviews with such broadcasting channels.

Note:

- (1) The market size of video-based content marketing refers to the revenue generated from video-based content marketing through TV channels, online video platforms and short video platforms.

## COMPETITIVE LANDSCAPE OF CHINA'S DRAMA SERIES MARKET

### Ranking of Leading Drama Series Production Companies in China

In terms of the licensing revenue, the total market share of the top five drama series production companies accounted for 19.0% of the entire drama series market in 2020. We maintained the top five ranking stably in terms of revenue from 2018 to 2020 in China. The table below sets forth the top five drama series production companies in China in terms of licensing revenue from 2018 to 2020:

### Ranking of the Top Five Drama Series Production Companies by Revenue<sup>(1)</sup> in China 2018-2020, RMB Billion

2020				2019				2018			
Ranking	Company	Revenue	Market share	Ranking	Company	Revenue	Market share	Ranking	Company	Revenue	Market share
1	Company A <sup>(2)</sup>	2.7	6.5%	1	Company B	2.2	4.6%	1	Company A	3.5	7.9%
2	Company B <sup>(3)</sup>	1.6	3.8%	2	柠萌影业	1.6	3.4%	2	Company C	1.6	3.6%
3	Company C <sup>(4)</sup>	1.5	3.6%	3	Company A	1.5	3.2%	3	柠萌影业	1.5	3.3%
4	柠萌影业	1.2	2.9%	4	Company C	1.5	3.0%	4	Company E	1.4	3.0%
5	Company D <sup>(5)</sup>	1.0	2.3%	5	Company E <sup>(6)</sup>	0.9	1.9%	5	Company B	1.2	2.7%
Total market share: 19.0%				Total market share: 16.1%				Total market share: 20.5%			

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*Source:* Frost & Sullivan Report. Frost & Sullivan conducted primary and secondary research, including reviewing the annual reports and prospectuses of publicly listed drama series production and distribution companies and conducting expert interviews with publicly listed and private drama series production and distribution companies.










*Note:*

- (1) The revenue includes revenue from the licensing of drama series and IP derivatives.
- (2) Company A is a company founded in 2005 and listed on the Shenzhen Stock Exchange focusing on the production and distribution of drama series.
- (3) Company B is a company founded in 2007 and is a subsidiary of a company listed on the Stock Exchange of Hong Kong focusing on the production and distribution of drama series.
- (4) Company C is a company founded in 2011 focusing on the production and distribution of drama series.
- (5) Company D is a company founded in 2014 and listed on the Stock Exchange of Hong Kong focusing on the production and distribution of drama series.
- (6) Company E is a company founded in 1999 and listed on the Shenzhen Stock Exchange focusing on online gaming and production and distribution of drama series.

Our Company secured the top three ranking stably in terms of premium content rate from 2018 to 2020 in China. The table below sets forth the top five drama series production companies in China in terms of premium rate from 2018 to 2020:

### Ranking of the Top Five Drama Series Production Companies by Premium Content Rate in China

2018-2020

2020	2019	2018																																																						
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*Source:* Frost & Sullivan Report. The list of top 20 drama series on TV channels in term of viewership is derived from the CSM Media Research and the list of top 20 drama series on online video platforms in terms of accumulated view counts is derived from major online platforms and professional third party media organizations.

*Note:*

- (1) Premium content rate refers to the number of premium drama series of a company as a percentage of the total number of drama series broadcast by it in the year.
- (2) Premium drama series refers to drama series that are in the list of the top 20 TV drama series (measured by viewership) or top 20 web series (measured by view count).



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### Entry Barriers of the Drama Series Industry

According to Frost & Sullivan, the drama series industry in China has the following major entry barriers:

- *Capital Barrier.* Production of drama series requires investment at early stage to cover costs including cast personnel costs, production costs, costs of scripts, post-production costs, costs of purchased copyrights, among many others. In addition, market players bear costs and risks of market uncertainties and policy changes before licensing such drama series to customers.
- *IP and industry expertise barrier.* Established drama series production companies generally not only have high-quality, evergreen and diversified IP reserve, but also can integrate experienced talents in the market including directors, scriptwriters, and casting crew. Such abundant IP reserve together with integrated industry resources enable them to continuously deliver quality drama series to audience.
- *Broadcasting channel barrier.* With quality drama series content on hand, major drama series production companies with proven track record have established a large audience and loyal audience base. Their prior popular drama series increase the market predictability and acceptance of their drama series sequels, allowing them to maintain stable cooperation with broadcasting channels. Market recognition is difficulty for new market entrants to establish within a short period of time.

### Key Success Factors

According to Frost & Sullivan, China's drama series production market is highly competitive. Although the number of the Radio and Television Program Production and Operation Permits increased at a CAGR of 21.8% from 2016 to 2020, the number of companies holding TV Series Production License (Class A) (電視劇製作許可證(甲種)) is relatively limited. As announced by the NRTA, only 41 companies possess valid TV Series Production License (Class A) for the period from 2021 to 2023.

Leading drama series production companies' success is attributable to the following factors:

- *Capabilities to continuously develop and monetize premium IP:* Production companies with capability to develop premium original IPs and monetize premium IP through IP serialization, derivation and licensing, enjoy great potential to produce popular drama series.
- *Stable talent pool:* Production companies which establish stable and mutually beneficial cooperation with talents and provide all-rounded support to talents, are more likely to continuously develop innovative works and premium content.
- *Audience engagement and stickiness:* Production companies with capability to develop premium drama series can better engage and impact audience, thus establishing audience stickiness allowing them to retain continuity from its previous success more easily.
- *Strong recognition by distribution channels:* Premium drama series stimulates traffic and subscriptions and significantly drive distribution channels' performance. Therefore, premium production companies with proven track record are highly valued by distribution channels, driving higher-than-average prices, pre-sale and other favorable arrangements.

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### MARKET DRIVERS OF CHINA'S VIDEO-BASED CONTENT MARKET

According to Frost & Sullivan, China's video-based content market is primarily driven by the following factors:

- **Video-based content becomes the most vital choice of entertainment**

Since 2020, video-based content platforms including short video platforms and online video platforms have become the most vital choice of entertainment for a huge coverage of user base with penetration rates of over 75.0% in 2020, much higher than that of the other entertainment APPs including online music (62.7%), mobile game (47.4%) and online literature platforms (36.6%). Meanwhile, the average monthly time spent by users of short video and online video platforms collectively reached 56.4 hours in 2020, ranking as the most popular time-spending entertainment channel in 2020.

- **Sustainable growing demands for premium content**

Audience has become more and more selective about the way they consume leisure time and the type of content they consume. This promotes for a sustainable growing demand for high-quality video-based content market. Premium content can always attract loyal audience.

- **Pay-for-watching becomes mainstream**

China's video-based content market has undergone an industry upgrade from free-watching to pay-for-watching, attributable to the increasing awareness and willingness to pay for premium original content. Nowadays, in line with the stable economic development in China, audience are more willing to pay for premium content, driving the increase of membership subscriptions and other innovative and trending monetization methods such as TVOD (transactional video on demand) and PVOD (premium video on demand).

- **Technology development**

The past couple of decades experienced rapid technology development. Empowerment by digital technologies, companies nowadays can pay close attention to audience preferences more accurately and intelligently so that they can produce premium content catering to the changing needs of audience. During the production process, through the widely-adopted 5G, VR/AR, Dolby Atmos, 4K big screen and other advanced technologies, audience experience has been enormously improved in terms of visual and audio effect and quality. In addition, innovative forms of content, including live streaming, interactive drama series, vertical screen drama series, miniseries and in-app purchase further promote innovative interaction among audience and premium content.

### FUTURE TRENDS OF CHINA'S VIDEO-BASED CONTENT MARKET

- **More opportunities for top players**

The production of premium content is an extremely sophisticated and comprehensive process. The concentration of video-based content market continues to intensify, and top players possess most of the premium works. Due to experience accumulation, brand recognition, capital accumulation, distribution channel relationships and stable cooperation with skilled talents, top players are expected to take up a much larger market share in the future.

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- **Diversified monetization methods**

The emergence of diversified and new monetization methods such as short video, content marketing, IP derivative licensing boost the development of the video-based content industry. As China video-based content market further matures, major players in the industry are capable to further expand their portfolios and diversify their revenue stream. For instance, drama series production companies can further monetize their content through the licensing of premium IP derivatives and provision of content marketing services.

- **Industry regulation and policies promotion**

During the past years, the Chinese government has implemented a series of regulatory policies to set stringent standards for the video-based content market, including restrictions on the maximum of drama series episodes as well as the remunerations to cast members. Such policies, on the one hand, promote competitions and eliminate excessive abuse of celebrity influence, and on the other hand, encourage video-based producers to focus on the quality of the content they deliver to the audience.

- **China-originated content will reach more overseas audiences**

The growing audience base and the increasing scalability of online distribution platforms drive further growth of video-based content in the pan-Asian market. In anticipation of the ever-intensified competition, both international and domestic leading online platform players are paying more attention to the pan-Asian market and seek to establish stronger presence with premium video-based content. China's content production companies possess competitive edge over competitors from other regions, leveraging on their deep understanding of the Asian culture, market resources and experience.