

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from the report prepared by CIC, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged CIC to prepare the CIC Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Sole Sponsor, the [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.

SOURCES OF THE INDUSTRY INFORMATION

CIC was commissioned to conduct an analysis of, and to report the China's social e-commerce and IP creation and operation industry at a fee of approximately RMB910,000. The commissioned report has been prepared by CIC independent of the influence of the Company and other interested parties. CIC's services include industry consulting, commercial due diligence, strategic consulting, etc.. Its consulting team has been tracking the latest market trends in e-commerce, consumer goods, environment, industry, energy, chemicals, healthcare, transportation, agriculture, finance, etc., and has the relevant and insightful market intelligence in the above industries.

CIC conducted 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, such as the National Bureau of Statistics, International Monetary Fund, etc.. The market projections in the commissioned report are based on the following key assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) China's economic and industrial development is likely to maintain a steady growth trajectory during the forecast period, accompanied by continuing urbanization; (iii) relevant key industry drivers are likely to drive the social e-commerce and IP creation and operation market in China during the forecast period; and (iv) there is no extreme force majeure or unforeseen set of industry regulations in which the market may be affected in either a dramatic or fundamental way.

Unless otherwise specified, all data and forecasts contained in this section are derived from the consultancy report of CIC. The Directors, upon acting with reasonable prudence, confirmed that there has been no occurrence of adverse change in the overall market information that would subject the data to significant restrictions, contradiction or negative effects since the date of the consultancy report.

OVERVIEW OF CHINA'S SOCIAL E-COMMERCE INDUSTRY AND IP CREATION AND OPERATION INDUSTRY

China's online retail market has experienced booming development during the past five years. The total online retail sales value in China, reached approximately RMB13.1 trillion in 2021 from RMB5.2 trillion in 2016 and is expected to further grow at a CAGR of 10.0% to RMB21.0 trillion by 2026. The expansion of online retail market in China has been continuing, underpinned by the increasing purchasing power and the development of new retail business

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models. The e-commerce market in China is relatively concentrated, mainly dominated by Taobao (淘寶), *Tmall* (天貓), JD.com (京東) and Pinduoduo (拼多多), with their combined market share accounting for about 90% in terms of GMV in 2021.

By definition, new retail business is a business model that: (i) combines online and offline commerce through the digitization of the entire retail value chain for the benefit of the merchants, the distributors (if any), the consumers, and the company; (ii) leverages digital payments data to create new efficiencies and capabilities in logistics, marketing, and product development; (iii) supports merchants with new tools and insights that cut costs and drive sales; and (iv) offers customers a seamless and customized shopping experience across the online and offline spaces (e.g. via interactions between distributors and end-consumers through communications on social media and messaging apps or participation of offline meetings, such as annual events, conferences, meetings and/or face-to-face sales at distributors’ retail shops).

China’s new retail market refers to a business that converges online and offline commerce through the digitization of the entire retail value chain for the benefit of both the merchant, the consumer, and the company enabling this transformation. And the company in new retail markets operates new products sales channels which different from traditional e-commerce, such as sales in WeChat (微信), *Douyin*, *XiaoHongShu* (小紅書) and *Kuaishou*, etc.. The Company’s business model that utilizes its distributors and customers’ online community and offers customers a seamless and customized shopping experience is viewed as one of the forms of “new retail business”. The segmentation of China’s new retail market includes social e-commerce industry which is further enhancing the development of China’s new retail market. China’s new retail market leverages digital payments data to create new efficiencies and capabilities in logistics, marketing, and product development; to support merchants with new tools and insights that cut costs and drive sales; and to offer customers a seamless and customized shopping experience across the online and offline spaces.

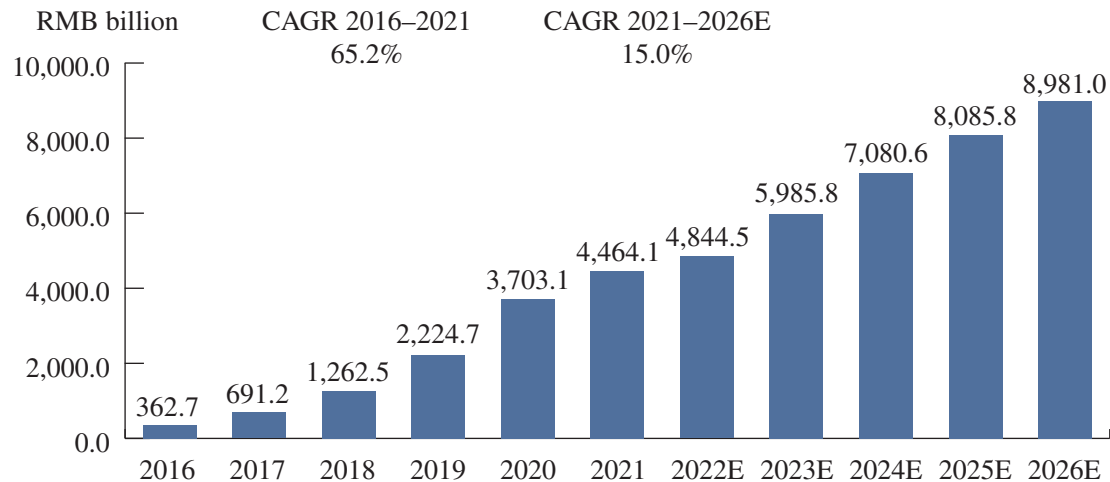
The market size of new retail markets in China increased from RMB0.0 trillion to RMB1.8 trillion from 2017 to 2021, representing an impressive CAGR of 160.8%. New retail market develops at a fast pace and will further penetrate China’s retail market, in the foreseeable future, from 2021 to 2026, China’s new retail market is projected to grow at a CAGR of 22.1%. By 2026, it is forecasted that China’s new retail market will reach a new high of RMB4.9 trillion.

Traditional e-commerce is a consumer search-based model where the purchasing process is initiated by customers’ searching on e-commerce platforms and placing orders based on their immediate demands. On a traditional e-commerce platform, the commodity information is normally centralized and independent consumers rarely interact with each other. Traditional e-commerce has become increasingly inefficient and presented a number of challenges to various stakeholders. For consumers, overflow of information on traditional e-commerce platforms became a pain point, while for merchants, they are troubled by increasing consumer acquisition costs on traditional e-commerce platforms and difficulty in building brand awareness. In light of these challenges, social e-commerce, defined as the sharing-based online shopping model built on consumers’ social networks and communities, has emerged as a solution. The benefits of social e-commerce include providing more accurate recommendation and source of information for consumers, improving brands awareness by social connections, and reducing the costs of consumer acquisition by leveraging community-building. Some market participants in China’s social e-commerce industry are also empowered by IPs, which enable social e-commerce companies to attract considerable traffic from fans base, usually helps the companies to enhance the value and enrich the content of the brands and products.

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China’s social e-commerce industry has experienced substantial growth over the past few years in terms of GMV, reaching approximately RMB4,464.1 billion in 2021 from RMB362.7 billion in 2016, with a CAGR of 65.2%. It is expected to keep growing at a CAGR of 15.0%, reaching RMB8,981.0 billion by 2026, according to CIC.

Market size of social e-commerce industry, in terms of GMV, China, 2016–2026E



Source: the CIC Report

Business model of social e-commerce

Social e-commerce enables customers and distributors to conveniently browse, make purchases, share, promote and facilitate online transactions through their social networks by providing features such as IT infrastructure support, embedded marketing tools and content. China’s social e-commerce industry mainly consists of the following four business models:

Community-based social e-commerce model, where brands or individuals operate e-commerce business through social media apps (mainly in WeChat). Based on their strong personal social network, brands and individuals can generate social exposure through WeChat official accounts, WeChat mini programs, WeChat Moments, or WeChat groups to attract and engage with fans and consumers.

Membership-based model, where one has to become a member of the platform before enjoying some member-exclusive rights. Only members of the platform can get access to the products. New members are usually invited by existing members through social media. Members can share and recommend products through social networks and essentially function as sellers on the platform and earn commission fees.

Content-sharing model, where consumers are attracted by shopping experience sharing, recommendations and reviews. It functions as a community to discover and share information of good products among a group of people with similar interests.

Group purchase model, where consumers form a group to purchase products, typically at competitive prices, and are encouraged to invite others to join the group.

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Categorisation of IP derivatives in China

Intellectual property (IP) refers to the properties that include intangible creations of the human intellect, consisting of copyrights, patents, trademarks, and etc. The properties could contain various IP types in different nature, including literature, films and TVs, games, cartoons and animation, music, live concerts, celebrities, art and etc.. Successful IPs can bring about considerable commercial value besides the value of their original formats through IP derivatives. IP derivatives can be divided into the following three major categories:

Merchandise derivatives, refer to branded products developed and sold by licensees after they acquire authorization from IP owners to use popular IPs for the benefit of business interests. The authorization is normally valid for a specific period of time in a specific geographical area.

Space derivatives, refer to themed events or space decoration, such as conventions, exhibitions, themed stores and theme parks that incorporate IP and related concepts for the purpose of providing immersive experiences as well as selling IP-related products.

IP-adaptation entertainment content, refer to entertainment content, mainly consisting of games, films and TV dramas, animation, etc., that are adapted from IPs.

The linkage and synergy between social e-commerce and IP creation

IP creation becomes social e-commerce company's assets, social e-commerce company with IP background do not need to pay extra IP licensing fees and company can freely leverage its IP assets to do commercial realization transactions, which is a huge competitive advantage that compare to another industry players.

IPs can bring about considerable commercial value besides the value of their original formats through IP derivatives, social e-commerce company can authorize its IPs value to another branded companies or own subsidiary, with different forms of IP derivatives, such as merchandise derivatives, space derivatives and IP-adaptation entertainment content, in order to obtain a considerable sales value of IP derivatives and profits.

IPs can bring a considerable audience base which has strong emotion links with the IPs to social e-commerce company. With the huge fan base of company's IPs assets, which enable the social e-commerce company enhances its IPs commercial value and leverages IP-based marketing strategy to effectively improve the value and enrich the content of the social e-commerce company's brand and products, and can attract the fan base of the IPs to their brands and products.

The empowerment and benefit of IP-based marketing for social e-commerce platforms

The social e-commerce platforms, which embedding suitable IPs and related elements and concepts to products, product packages, free gifts, etc., can effectively gain the following advantages:

IPs diversified the social e-commerce company's business model. The social e-commerce company can leverage its IPs assets to create different forms of IP derivatives, such as embedding IPs into its merchandise products, themed events, space decoration and entertainment content, etc., which brings company a huge development potential based on a diversified business model.

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IPs improve social e-commerce company's brand awareness. IPs normally have a considerable audience base which has strong emotion links with the IPs. Through using IP-based marketing, companies can effectively enhance the value and enrich the content of their brands and products, and can attract the fan base of the IPs to their brands and products.

IPs bring impressive marketing and sales effects to social e-commerce company. The quality of IP resources can enhance the core competitiveness of social e-commerce platforms. The IP image, IP influence and IP quality can determine the marketing effects of the downstream IP derivatives. Consumers in China is bombed by overwhelmed marketing information and their attraction is distracted as a result of emergence of increasingly diverse marketing channels. Quality IPs have premium content for business entities to utilize and process into good marketing materials, and the organic combination of quality IPs and suitable products or services can stir up great sparks and bring fun to consumers. All of which prove that leading IP resources tend to bring impressive marketing and sales effects to business entities.

IPs enhance the social e-commerce company's consumers stickiness and community bonding. Fans with strong emotion links with IPs can easily be cultivated by IP-based social e-commerce company into highly sticky consumers, KOCs and KOLs to company's brand through the strong IPs influence. The effect brought by loyal communities and consumers will further raise company's brand awareness and enable company to acquire new consumers at lower costs.

IPs can reduce social e-commerce company's advertising cost. IPs can enable company to freely use IP-based marketing strategy with IPs naturally huge fan base to achieve a wider brand or product exposure, which is huge competitive advantage that compare to industry players who still using traditional digital marketing.

Market drivers of IP industry

The rapid growth of pan-entertainment industry in China. As a number of IPs are derived from pan-entertainment content, the prosperity of China's pan-entertainment is expected to facilitate the growth of China's IP creation and operation industry. The growing demand for entertainment consumption in China are expected to further facilitate the growth of pan-entertainment industry in China, and therefore drives the development of IP creation and operation industry.

Large number of IP fans. Over the past years, the prevalence of fan economy in the PRC has further driven the development of the entertainment and character IP licensing market. Particular IPs including animation characters, celebrity and music can easily accumulate large number of fans, which had become the main consumption power of IP derivative products and services.

Enhanced purchase power. The improved consumption level have led to a boost in consumers' demand for unique and differentiated commodities. IP-related commodities can convey a special emotion links between consumers and IPs through such commodities, which are able to satisfy consumers' taste for unique and differentiated commodities and are expected to be welcomed by Chinese consumers. As a number of IPs are derived from pan-entertainment content, the prosperity of China's pan-entertainment is expected to facilitate the growth of China's IP creation and operation industry.

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Competitive advantage of the Company’s IP resource

As of March 22, 2023, Jay Chou’s official account on *Kuaishou*, *ChouMate* had over 52 million subscriptions, ranking first among all celebrities on *Kuaishou*, in terms of the number of fans of official accounts. Such account of Mr. Jay Chou on *Kuaishou* was not used to promote any of our Group’s products. Such leading position on *Kuaishou* has reflected the considerable influence of *ChouMate*.

J-Style Trip season one was broadcast during 22:00 to 24:00, every Saturday on Zhejiang Satellite TV from March 2020 to June 2020, and was also aired on Mango TV (芒果TV) and Netflix.

Based on the viewership ratings published by CSM Media Research Co., Ltd (中國廣視索福瑞媒介研究有限公司) (being one of the major providers of data of TV programs ratings in the PRC) (“CSM”), *J-Style Trip* season one recorded an average rating of 1.165% and ranked first among the TV reality shows broadcasted during the same timeslot from March to June 2020. The average ratings of the following two TV reality shows reached 0.747% and 0.697%, respectively.

Competitive landscape in China’s entertainment industry

The ranking	TV reality shows broadcast from March to June 2020	Average rating published by CSM
1	<i>J-Style Trip</i> season one (周遊記1)	1.165%
2	The Sound season three (聲臨其境3)	0.747%
3	Dear, Come To Eat (親愛的,來吃飯)	0.697%
4	If you are the one (Rebroadcast) (非誠勿擾)	0.467%
5	Me to Us (我們的樂隊)	0.373%

In addition, based on the average rating published by CSM, *J-Style Trip* season one ranked 27th among all TV reality shows broadcasted during 2020.

The number of Mr. Liu’s followers has been increasing since April 2022, with his *Douyin* followers growing from approximately 5.0 million on April 12, 2022 to 65.4 million on May 12, 2022, and to 71.5 million as at December 31, 2022. Only a few phenomenal accounts on the *Douyin* platform can reach a monthly increase of more than 10 million fans, while Mr. Liu increased his fan base by more than 60 million within a month, surpassing Mr. Andy Lau’s record of 50 million within one month and becoming the account with the highest monthly increase in the history of *Douyin*.

Mr. Liu’s popularity as a fitness enthusiast was consistent with his track records, where he has been working as a fitness trainer for many years, which helped him in building the IP of fitness icon.

Mr. Liu has accumulated 164 million likes for his works on *Douyin*, making him the third most popular *Douyin* KOL account in terms of number of followers. His *Douyin* topic “Ben Cao Gang Mu Exercise Challenge” (本草綱目毬子操) has been played 15.3 billion times.

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Leading entertainment content including films and TVs, and live concerts can draw great attention from audience, thus are suitable for advertising placements. By integrating social e-commerce company’s products and brands into entertainment content, brands and products can achieve considerable exposure and increase awareness among targeted audience, thus boosting product sales.

Key drivers of China’s social e-commerce industry

Increasing mobile internet usage, especially on social media apps. The proliferation of mobile internet has developed significantly, the new generation of consumers spends more time on mobile internet, especially on social media apps, and the scale of social media apps users has been increasing in recent years. According to CIC, consumers’ average daily time spent on mobile internet has been quickly growing from approximately 4.5 hours in 2017 to 6.8 hours in 2021 per day, representing an CAGR of 10.9% between 2017 and 2021. There is also an increasing tendency to share one’s everyday life, including shopping needs and experience through actively using social media, such as WeChat and Weibo. The monthly active users on WeChat increased from 0.9 billion accounts in 2016 to close to 1.3 billion accounts in 2021, representing a CAGR of more than 7%. The rising scale and penetration of social media apps users reflects that there are more consumers becoming aware of social e-commerce business, which is expected to boost the social e-commerce business in China in the future.

Increasing tendency to share shopping experience. Young people in China are more willing to share their personal life and shopping experiences online to their friends and families, and their purchasing decisions are more prone to be influenced by KOLs, KOCs, communities and social networks, which provides a huge potential for the growth of social e-commerce industry.

Emergence of wider social connections. According to CIC, online social network has expanded from personal and familial relationships to communities and groups of common interests, which has become a major source of information acquisition and distribution, hence influencing one’s decision making in various aspects, including shopping decisions.

Increasing demand on more personalized and accurate information for online shopping. According to CIC, in traditional e-commerce industry, the overflow of information became a pain point. There are huge amount of products and information available on the e-commerce platform, such information is often unilateral, and difficult for consumers to relate to and rely upon. This drives the increasing demand on more personalized and accurate information for online shopping. In light of these challenges, multiple and diversified shopping business models are emerging in China’s e-commerce market, driving the growth of the social e-commerce market in China.

Spontaneous shopping. The emergence of social e-commerce facilitates the omni-channel marketing of products. Social e-commerce, empowered by the advancement of mobile internet, the mobile payment technology, cloud computing, big data technology and etc., can provide consumers with a seamless, integrated and highly personalized shopping experience as well as access to an increasingly diversified range of products. This generates numerous new consumption scenarios for consumers to shop anywhere, anytime, thus facilitating the market of social e-commerce.

Government support. Social e-commerce creates a novel way of e-transaction. It provides information distribution networks connected by social media, offers trustworthy and cost-effective product choices with less time commitment, and lowers customer acquisition and retention costs. Social e-commerce business has been growing rapidly and became increasingly prosperous during recent years in China and government has been more proactive in encouraging

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innovation to develop new business models, such as social e-commerce. Furthermore, in order to distinguish social e-commerce from pyramid selling, The Standing Committee of Kunshan Municipal People’s Congress had introduced supportive measures to establish pilot zone in Kunshan as the first city for the sustainable development of social e-commerce, which is one of the major future new business models, according to CIC. The establishment of such pilot zone is a measure commonly adopted by the PRC government to support the development of new forms of business such as Cross-border e-commerce pilot zone (跨境電商綜合試驗區) since 2012, new retail pilot zone in Hangzhou (杭州新零售試驗區) since 2018 and Smart City pilot zone (智慧城市試驗區) since 2012, etc. On December 25, 2020, the Eighth Inter-provincial Level Joint Conference on Kunshan Pilot Zone (昆山試驗區部省際聯席會議第八次會議, the “**Eighth Joint Conference**”) was held in Kunshan. According to the meeting minutes of the Eighth Joint Conference, various supportive measures were proposed on the Eighth Joint Conference to deepen the cross-strait industrial cooperation. It was also resolved that the Administration for Market Regulation and Development and Reform Commission shall support the development of innovative business models such as social e-commerce in Kunshan Pilot Zone, and carry out pioneering work in data sharing and law enforcement cooperation for the purpose of encouraging innovation while maintaining its prudence and adhering to its principles. To further supplement the supportive measures set out in the Eighth Joint Conference, the Progress Meeting on Social E-commerce Pilot Enterprises (社交電商試點推進會議, the “**Progress Meeting**”) hosted by Kunshan Development and Reform Commission was held on March 16, 2021 and Kunshan Star Plus Action has become the first social e-commerce pilot enterprise in the Kunshan Pilot Zone. It is expected that the government support provide a strong growth basis and will drive the future development of social e-commerce industry in China.

The empowerment of IP is expected to drive the growth of social e-commerce industry. Embedding a suitable IP, especially celebrity IP, which can bring huge traffic to the social e-commerce company’s brand and products. IP owners can commercialize their IP assets through different IP transaction methods such as licensing, IP asset sales and franchising, or through direct participation in the development and sales of IP derivatives, which enable the company facilitate business growth. Therefore, the empowerment of IP becomes an increasing popular marketing strategy and further driving the growth of social e-commerce industry.

Key trends of China’s social e-commerce industry

Evolvement of marketing strategy. The marketing strategy of market players will evolve from marketing through personal acquaintances to marketing through communities, KOCs and KOLs. Marketing through personal relationship has only limited range of consumers, as acquaintances might not have similar interests in specific products or services. Communities, KOCs and KOLs can match those who have similar demands and provide an efficient approach for online stores to reach a huge amount of target consumers. Therefore, more products and service are expected to be promoted through communities, KOCs and KOLs in the future.

Increasing product categories. Along with the consumption upgrade, consumer demand in China is becoming more diversified, resulting in preferences towards companies that have various products. To capture consumers’ needs, companies will continuously expand their product mix.

Improving consumer services and quality control. Consumer services and quality control management are two major pain points for social e-commerce, which consumers are highly concerned about. Many online merchants at present are lack of services and thus unable to retain consumers as well as achieve sustainable development. To solve such issues, more social e-commerce market participants tend to construct professional consumer service teams and quality control management teams to enhance their competitiveness and increase consumer loyalty.

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Increasing using IP-based marketing strategy. Over the past years, the prevalence of fan economy in China has further driven the development of the entertainment and character IP licensing market. Therefore, particular IPs including animation characters, celebrity and music can easily accumulate large number of fans, which had become the major marketing strategy for social e-commerce company to promote their product and enhance the brand value.

Entry barriers

User acquisition and engagement. An active community with robust growth is crucial to the development of a social e-commerce. With rising competition in the e-commerce industry, the cost of acquiring new users and maintaining high user stickiness has increased.

Quality control of products. Product quality is crucial for social e-commerce, as e-commerce might be materially and negatively impacted by any product quality issues, including but not limited to potential penalties, litigation and reputational harm. New entrants usually need a period of time to establish a sound quality control system, and therefore, product quality control remains a barrier.

Strong brand recognition. consumers normally prefer social e-commerce company with good credit. Any negative news about the e-commerce company will impose long-term and extensive negative impact on the future development. Hence, good brand recognition can help win customers’ trust and loyalty. Existing social e-commerce companies have already built up a good reputation given their outstanding service offerings, especially the company who owned the celebrity IP background already easily built up the company’s brand recognition which is an exclusive and inimitable brand. Therefore, new entrants may find it rather hard to establish good brand reputation in short run while also competing with other players.

Strong distribution capability. One of the most important elements of the social e-commerce industry is the wide application of social networks in merchandise marketing. Communities and distributors with loyalty are the foundation of social e-commerce marketing in this industry. A social e-commerce company needs to develop a comprehensive system with sound incentive and supervision mechanism to manage their distributors and to strengthen distribution capability. New entrants that lack experienced distributors and expertise in distributor management may fail to survive in the market.

Key success factors

Social e-commerce company who owns successful IP background will have strong community bonding and highly sticky consumers. Since wide application of social networks in merchandise marketing is vital to the market players who owned successful IPs background can efficiently maintain strong community bonding and cultivate a large amount of highly sticky consumers, KOCs and KOLs to their brands through the strong IPs influence which can attract large fan based traffic. The effect brought by loyal communities and consumers will further raise market players’ brand awareness, and enable them to acquire new consumers at lower costs.

Celebrity IP has great attractiveness to traffic naturally. Competition in social e-commerce is relatively fierce. Attractiveness to traffic is important for social e-commerce market participants to achieve cost-efficient mass consumer procurement. IPs, especially celebrity IP can bring great brand recognition to social e-commerce market participants at very short notice, which can in turn help promote the products and drive traffic to social e-commerce. Meanwhile, social e-commerce associated with celebrity IPs enable to expedite the brand awareness, further to leveraging on the large number of fans base and brand endorsement of celebrity IPs which is conducive to convert fans of celebrity IPs into consumers, and therefore boost the product sales more easily.

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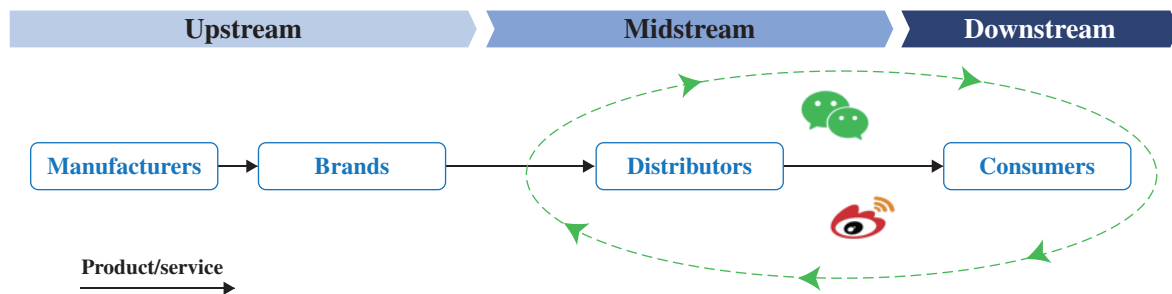
Full-serviced model enabling users to engage in buying and marketing of products easily.

An integrated full-serviced social e-commerce enables KOCs and distributors to easily navigate, share, create content and interact with consumers, providing enjoyable on-purchase and after-sale services and familiarizing consumers with the product information and true user experience. Additionally, under the full-serviced model, the influencers and distributors are also provided with systematic marketing training on effective sharing, content creation and customer interaction. Meanwhile, centralized order system and logistics services are implemented to guarantee the completion of sales. Such model is likely to achieve higher consumer stickiness, as it fulfills different needs of both consumers as buyers and as promoters of the products, and is able to transform a customer into a distributor or influencer.

Advanced IT infrastructure. As the online retail market in China grew rapidly over the past five years, an advanced IT infrastructure has become crucial for company to handle sales and logistic data. Moreover, for social e-commerce, leveraging consumer relationship management (CRM) and big data analyses on consumers' needs and feedback would enable them to better understand the market trends. Also an advanced IT system is helpful for the quality control of company's products to avoid counterfeit enter into market, improving consumers shopping experience.

CHINA'S COMMUNITY-BASED SOCIAL E-COMMERCE INDUSTRY

Value chain of community-based social e-commerce model



Source: the CIC Report

Upstream: Social e-commerce companies mainly focus on product development and brand building. In the community-based social e-commerce model, social e-commerce company either produce the products by themselves or outsource the production to third party manufacturers and then distribute the products through distributors.

Midstream: Community-based social e-commerce model involves different layers of distribution. It is common in the industry that the social e-commerce company would engage an independent third party distribution agent, to assist with distributor management and training as well as sales and marketing activities pursuant to the distribution agreement while the social e-commerce Company mainly focus on product development and brand building. The distribution agent would engage multiple distributors and sub-distributors. The social e-commerce company would provide various discounts or rebate arrangement with distributors and/or sub-distributors based on amount of purchases and other factors. Each level of distributors are also able to directly sell products to consumers at a guide price pre-stipulated by the social e-commerce company. Given the sub-distributors are usually small-scale or even personal merchants, most of them may not be able to and not willing to enter a formal contractual relationship with social e-commerce company. It is a common industry practice that the social e-commerce company would provide a standard sub-distribution agreement to

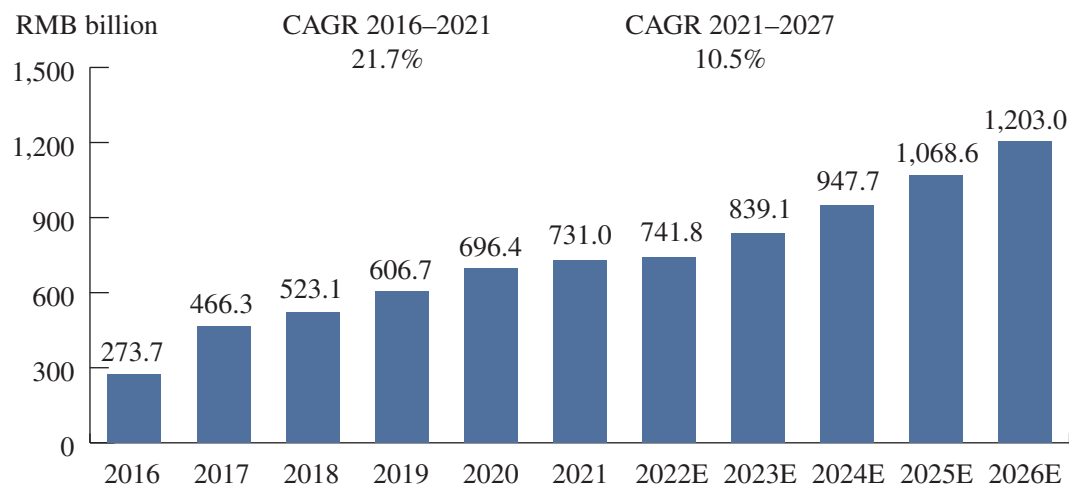
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distributors which they are required to use when they enter into a contractual relationship with their sub-distributors. Alternatively, distributors can establish a business relationship with their sub-distributor by placing purchase orders with the social e-commerce company on behalf of the sub-distributors.

Downstream: Each layer of distributors engages with consumers through social media apps (such as WeChat) and therefore generate sales of products.

According to CIC, community-based social e-commerce industry has experienced rapid growth in China, its market size growing from RMB273.7 billion in 2016 to RMB731.0 billion in 2021, representing a CAGR of 27.1%, and is expected to grow at a CAGR of 10.5% to RMB1,203.0 billion in 2026.

Market size of China’s community-based social e-commerce industry, in terms of GMV, China, 2016–2026E



Source: the CIC Report

By product type, China’s community-based social e-commerce industry mainly consists of consumer health, beauty and personal care, and other product categories such as apparel, food and beverage, etc.

China’s consumer health segment in community-based social e-commerce industry

China’s consumer health market is mainly comprised of vitamins and dietary supplements, sports nutrition, health management products and other products. The market size of consumer health community-based social e-commerce industry increased from RMB70.6 billion to RMB182.6 billion in terms of GMV, at a CAGR of 20.9% from 2016 to 2021. China’s consumer health community-based social e-commerce industry is expected to maintain strong growth momentum in the foreseeable future, reaching RMB284.1 billion by 2026, at a CAGR of 9.2% between 2021 to 2026.

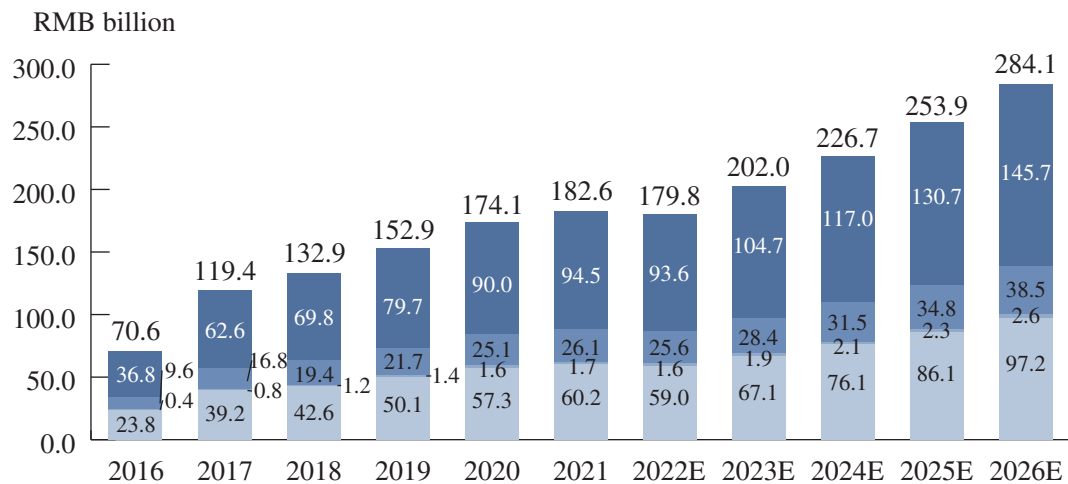
In the sub-market of consumer health, China’s health management products can be further categorized into five sub segments including meal replacement, OTC obesity, slimming teas, supplement nutrition drinks and weight loss supplements. The market size of health management community-based social e-commerce industry increased from RMB9.6 billion to RMB26.1

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billion in terms of GMV, at a CAGR of 22.1% from 2016 to 2021, and is expected to further grow and reach RMB38.5 billion by 2026, at a CAGR of 8.1% from 2021 to 2026.

Market size of China’s consumer health community-based new retail industry, in terms of GMV, by product type, 2016–2026E

	CAGR 2016–2021	CAGR 2021–2026E
■ Vitamins and dietary supplements	20.8%	9.0%
■ Health management	22.1%	8.1%
■ Sports nutrition	35.8%	9.1%
■ Others	20.4%	10.1%
Total	20.9%	9.2%



Note: others include plasters and foot bath powder, etc.

Source: the CIC Report

The concept of the low-carbohydrate diet

The low-carbohydrate diet plan is a diet that substitutes nutrition and energy intake of carbohydrates such as rice, flour or sugar with foods high in protein and fat percentages and other low-carb foods as the main nutritional supplement to meet the plan’s fat/energy ratio, such that the ratio of carbohydrates in energy supply structure is less than 10% and is commonly useful for people trying to lose weight or suffering from epilepsy or diabetes. Based on existing medical research and common knowledge of related experts, overweight and obese population aged between 18 years old to 65 years old that have explicit willingness to lose weight and receive guidance on low-carbohydrate diet.

The advantages of low-carbohydrate diet for weight loss includes (i) more intake of protein and fat will lead to inhibition of hunger and calorie intake; (ii) low-carbohydrate diet act to rid excess water from the body, lowering insulin levels and leading to rapid weight loss in short term; and (iii) compared with traditional low-calorie weight loss solutions that have strict restriction on calorie intake, allowing less food alternatives, low-carbohydrate diet spares of calorie restriction and allows more food selection, helping people to insist on weight loss.

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China’s bulletproof drink market

The concept of bulletproof coffee was first introduced in 2004 in the U.S. and commercialized in China since 2016. As a new diet trend emerging from 2010 afterwards in China, bulletproof drink market has experienced a relatively rapid growth during the past few years. The market size of China’s bulletproof drink market increased from RMB0.3 billion to RMB3.2 billion in terms of GMV, at a CAGR of 60.0% from 2016 to 2021.

In 2020, the COVID-19 outbreak caught the world by surprise and the extent of its societal and economic impact was unclear, which mildly affected Chinese people’s consumption behavior. In addition, the static management control measures implemented were precisely targeted to specific regions, as the majority of people’s daily lives were not severely affected. The first static management control measures began in Wuhan on January 23, 2020, which lasted until April 8, 2020. At the end of January 2020, static management control measures were implemented by the PRC governmental authorities across the country as people were suggested to cut back on outdoor activities. Gathering activities were halted and regional traffic controls were imposed to curb the spread of the disease. Around one month later, national transportation and production activities resumed across the PRC.

In 2021, the Delta variant of COVID-19 appeared in Guangzhou, Shenzhen, Nanjing, Xi’an and many other places, resulting various small-scale static management control measures being implemented in only middle and high risks neighborhoods. For regions with emerging outbreaks, public gatherings and events were cancelled, and transportation was also affected. The outbreak of delta variant of COVID-19 in 2021 involved fewer cases than in 2020, but it was more widespread, so the static management control measures affected more places. As regional static management control measures became common, people’s income and consumption behaviors were adversely affected, especially on unnecessary expenditures like health management products.

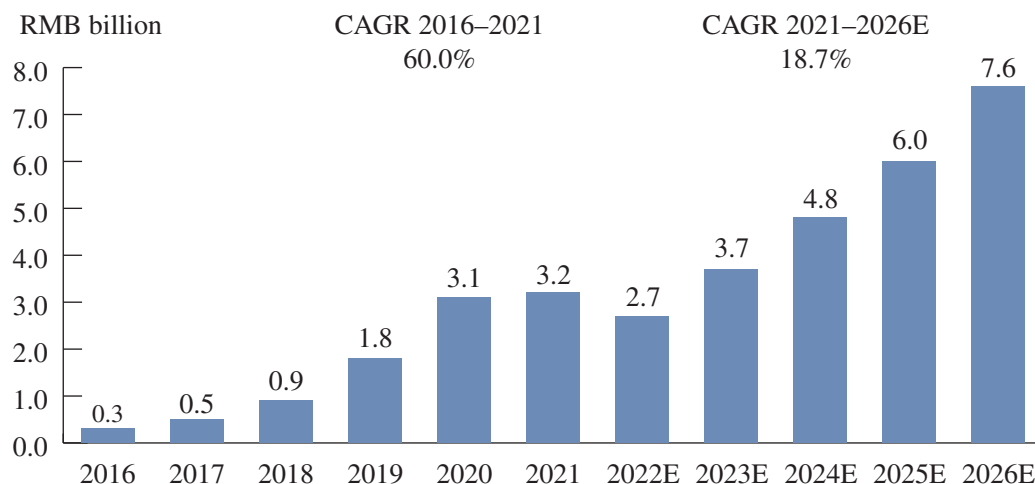
During 2022, the Omicron variant of COVID-19 was raging across the globe and many regions in China were severely affected. Starting in March 2022, Shanghai and Changchun, Jilin province, entered into city-wide static management control measures for two months and 48 days, respectively. The outbreak in Shanghai was the largest urban cluster of aggregated infections in mainland China after the outbreak in Wuhan in early 2020. As Shanghai is China’s economic and logistics hub, the two-month static management control measure in Shanghai had a major adverse impact on the Chinese economy. Furthermore, outbreaks in other major cities, such as Beijing and Changchun, also adversely impacted the economy, causing downturns in consumption. Thus, the impacts of pandemic on the overall retail sector in 2021 and 2022 were much severe than in 2020. In the second half of 2021 and the first half of 2022, China’s economy was severely affected by various static management control measures across the country, resulting in slower-than-expected growth in the bulletproof coffee market in 2021 and downward predictions for the first half of 2022.

In the future, as the pandemic weakens and the PRC government aiming to boost consumption with policies, overall consumption is expected to recover from prior negative activities and the bulletproof drink market is expected to resume growth. The General Office of the State Council issued the “Opinions on Further Unleashing Consumption Potential and Promoting the Sustained Recovery of Consumption” in late April 2022. The provincial and municipal governments have studied the guidelines and drafted several supporting measures to promote consumption in their respective regions. Driven by the macro economy, the bulletproof drink industry is expected to resume year-on-year growth in the second half 2022, reaching a level close to the first half of 2021, as the overall economy is predicted to stabilize and rebound.

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Leading companies in the industry has accomplished market education resulting in the total number of bulletproof drink consumers reaching 2.0 million in 2021, representing a CAGR of 54.9% from 2016 to 2021. The penetration rate of consumers out of obesity population in China has increased from 0.06% in 2016 to 0.35% in 2021. However, in 2022, the overall Chinese economy will be affected negatively, as consumption level is expected to decrease with the provisional resurgence of the pandemic. In April 2022, both Manufacturing Purchasing Managers’ Index and Synthesized Purchasing Managers’ Index had reached the lowest record since March 2020. For the six months ended June 30, 2022, the bulletproof drink market in the PRC recorded a year-on-year decline of approximately 46.2% as compared to the corresponding period in 2021. Total number of consumers of bulletproof drink in 2022 will also decrease compared to 2021. On July 15, 2022, the National Bureau of Statistics (NBS) announced that China’s GDP grew 2.5 percent in the first half (H1) of 2022, compared to the same period in the previous year. The International Monetary Fund (IMF) then revised its forecast for China’s economic growth to 3.3% annually, meaning H2 2022 is likely to achieve an estimated 4.0% growth compared to H2 2021. Starting 2023, Chinese economy is predicted to stabilize and resume rational growth, as GDP is foreseen to rise by 4.6% under IMF forecast, the bulletproof drink industry will grow as total number of bulletproof drink consumer will also expand and continue to show a rising tendency. The total beverage market in China increased from RMB503.4 billion in 2016 to RMB582.9 billion in 2021 at a CAGR of 3.0%. It is expected to grow to RMB767.2 billion in 2026, representing a CAGR of 5.6% from 2021 to 2026.

**Market size of China’s bulletproof drink industry,
in terms of GMV, China, 2016–2026E**



Source: the CIC Report

INDUSTRY OVERVIEW

Key drivers of China's health management and bulletproof drink industry

Lightweight trend and on-the-go lifestyles boost demand. There is a growing trend towards lightweight life in China, which involves a preference for light weight and convenience across all areas of life, including clothing, food, shelter, transport and media. People pursuing this lifestyle aims to get rid of daily trivia and make life simpler, which improves the development of new ways of consumption, such as consuming meal replacement products, including bulletproof coffee, meal replacement shakes, bars and biscuits, and weight loss supplements, including package food with ingredients like probiotic. Moreover, with the growing prevalence of busy lifestyles and the erosion of traditional consumption habits as a result of ongoing urbanization, this is leading to an increasing demand for products that conveniently meet consumers' nutritional requirements, such as meal replacement products.

Growing health awareness is expected to drive the growth of the health management industry. The sedentary lifestyles and an increasing preference for junk food and fast food are leading the increasing risks of obesity, which drives the growing awareness of health. Consumers are increasingly health conscious, focusing on attributes such as health management through health management solutions and reduced sugar consumption. This is leading to the adoption of various new health management solution, such as low-carbohydrate diet plan, which helps reduce fat naturally and has lesser chances of side effects as compared with traditional methods. Therefore, the growing health consciousness is expected to drive the growth of China's bulletproof drink market during the forecast period.

Key trends of China's health management and bulletproof drink industry

Providing premium taste of products. As the health management and bulletproof drink products are becoming popular due to the increasing awareness of health, companies are trying to innovate the flavor and taste of meal replacement products in order to catch consumers' various preference, through producing a low sugar of meal replacement product which has the similar taste with the taste of high-calorie product, such as bulletproof milk tea. Moreover, there is also an increasing demand for tastes that accord with daily meals, which leads to the appearance of other various flavors, such as black pepper, Chinese sauerkraut and Japanese miso.

Increasing variety of product categories. Along with the consumption upgrade, consumer demand in China is becoming more diversified, resulting in preferences towards companies whom have various categories of low-carbohydrate products with different function. To satisfy different consumers' needs, there will be an increasing variety of low-carbohydrate product categories in the future, which could provide a variety of health management solutions for body building.

Entry barrier of China's health management and bulletproof drink industry

Knowledge in marketing strategy and brand awareness. The customer's choice and the sales of health management and bulletproof drink products depend largely on marketing strategies. Market participants may adopt sub-brands as marketing strategies for market segmentation and precise customer targeting, and therefore succeed in taking more share of the customer base. Therefore a strong knowledge in marketing strategy, including the strategy of positioning, advertising, and promotion, is one of the important entry barriers for companies in the health management and bulletproof drink market.

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Product innovation ability. Chinese consumers for health management and bulletproof drink products prefer differentiated products with unique brand value. In response to the ever changing consumer market with various preferences, health management and bulletproof drink companies have to invest a substantial amount of time and money into product research and development. However, product research and development capabilities are supported by affluent capital, talent resources, and industry experience, which are all hard for new entrants to access to. New companies without sufficient product development capabilities cannot provide customers with trendy products and therefore suffer when trying to survive in the market.

Celebrity IP. Only a few market participants in China’s social e-commerce industry are empowered by celebrity IP. Celebrity IP, able to attract considerable traffic from fans base, usually helps the social e-commerce market participants to achieve relatively quick growth.

Competitive landscape

The bulletproof drink market had experienced growth in 2021 as more and more consumers are aware of the benefit of bulletproof drink and began to try such products. In addition, there were also more companies that began to develop and launch new bulletproof drink products, while some of the competitors adopted a low-price strategy. The high end products in the bulletproof drink industry are categorized with prices of more than RMB40 per cup, while mid-to-low end products are priced below RMB40 per cup. The Company recorded a market share of 25.6% in terms of GMV in 2021, down from 40.5% in 2020, due to the increase in number of market participants and counterfeit products being found in the market. Despite the foregoing, the Company’s market share was still 8.5 times of the second largest industry player, demonstrating the Company continuously being the market leader in bulletproof drink market.

In the second half of 2021, a new wave of Covid-19 pandemic started across many regions in China, and has made China’s economy suffer. The government implemented various strict precautions including city-wide static management control measures. Due to the rebound of the pandemic, consumption has fallen sharply. While the demand of enterprises is facing the pressure of contraction, the normal production of enterprises is also negatively affected, and the residents’ lives are affected to varying degrees, which will inhibit the growth of consumption levels and thereby dragging down overall economic growth.

In the past years, bulletproof drink and low-carbohydrate diet has experienced extensive growth in China as consumer awareness continue to rise. Beginning 2021, with effective market education of ketogenic diet and market participants’ success, the industry becomes attractive, which leads to more new market players entering the bulletproof drink market. The majority of the new market participants tend to adopt the low-price tactic as their brand strategy. In the bulletproof drink industry with growing consumer awareness, such strategy diverted some price-sensitive consumers to purchase from them, while the Company maintained its high standard with the higher price tag. By having more market participants, the entire bulletproof drink market became more disperse, but the Company remained the dominating industry leader.

In addition, when certain brands gain popularity in a niche market, it is not uncommon for some manufacturers to “take shortcuts” and sell fake products. Under the influence of these counterfeit products, company’s real market share could be diluted.

INDUSTRY OVERVIEW

Competitive landscape in China’s bulletproof drink industry (Note 1)

<u>Ranking</u>	<u>Company name</u>	<u>Company Profile</u>	<u>Sales channel</u>	<u>2021 GMV in million</u> <i>(RMB)</i>	<u>Market share in %</u>
<u>1</u>	<u>The Company</u>	<u>Company established in Jiangsu province in China in 2018.</u>	<u>WeChat/Third party e-commerce platforms</u>	<u>823.3</u>	<u>25.6%</u> <i>(Note 2)</i>
2	Company J	Company established in Hubei province in China in 2015.	WeChat/Third party e-commerce platforms	97.0	3.0%
3	Company N	Company established in China.	Third party e-commerce platforms	75.4	2.3%
4	Company O	Company established in China.	Third party e-commerce platforms	52.2	1.6%
5	Company K	Company established in Korea.	Third party e-commerce platforms	15.1	0.5%

Notes:

1. The China’s bulletproof drink industry covers all sale of bulletproof beverages within the PRC market irrespective of the place of production, including but not limited to, the sale of bulletproof coffee, bulletproof milk tea, bulletproof coconut milk etc.
2. The total number of market players increased significantly from approximately 200 in 2020 to approximately 300 in 2021. Coupled with the emergence of counterfeit products which are similar to our Group’s products in the market, which attracted some of our price-sensitive potential consumers, our market share was diluted to approximately 25.6% in 2021, as compared to approximately 40.5% in 2020.

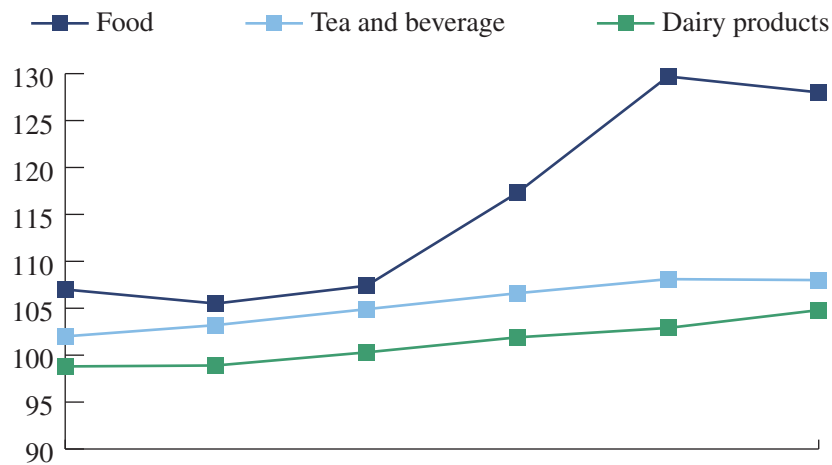
INDUSTRY OVERVIEW

Price analysis of raw materials in health management and bulletproof drink industry

The cost of raw materials represented a major cost item for the health management and bulletproof drink industry. From 2016 to 2021, the 2014 based consumer price index (“CPI”) of food increased from 107.0 in 2016 to 128.0 in 2021.

The price of tea and beverage, as one of the main raw material for bulletproof drink products, increased from 102.0 in 2016 to 108.0 in 2021. The price of dairy products, as another major raw material, kept relatively stable during 2016 to 2021. Imported butter, the major raw material of bulletproof drink, maintained relatively stable during 2016 to 2021 in China.

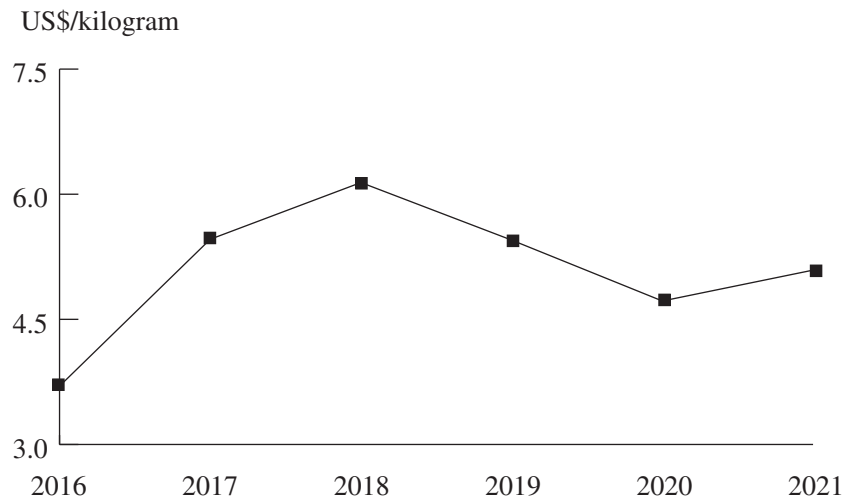
CPI of raw materials, China, 2016–2021



CPI (2014=100)	2016	2017	2018	2019	2020	2021
Food	107.0	105.5	107.4	117.3	129.7	128.0
Tea and beverage	102.0	103.2	104.9	106.6	108.1	108.0
Dairy products	98.8	98.9	100.3	101.9	102.9	104.8

INDUSTRY OVERVIEW

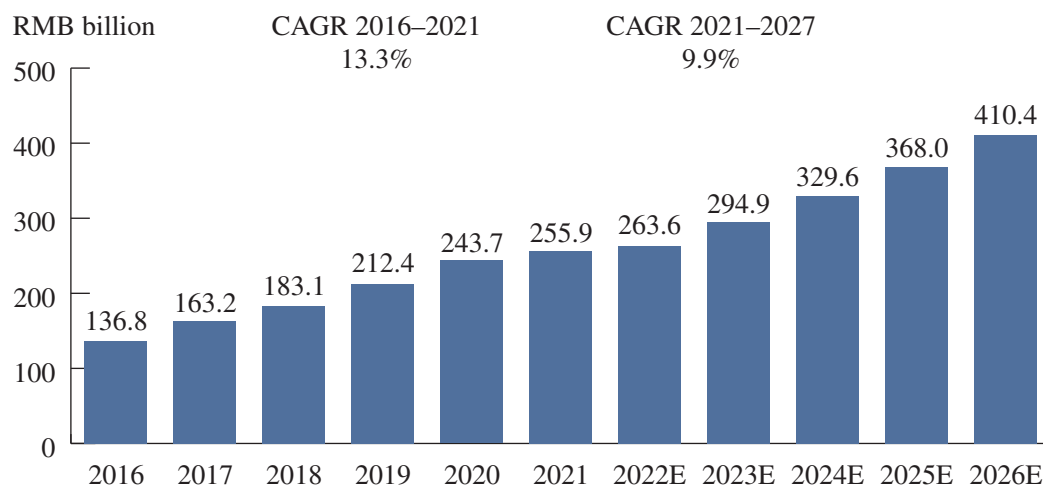
Price of imported butter and fats, China, 2016–2021



China’s beauty and personal care segment in community-based social e-commerce industry

The market of beauty and personal care products consists of skin care, hair care, oral care, color cosmetics, bath and shower, and other products. The market size of China’s beauty and personal care community-based social e-commerce industry increased from approximately RMB136.8 billion in 2016 to RMB255.9 billion in 2021 in terms of GMV in China, representing a CAGR of 13.3%. China’s beauty and personal care community-based social e-commerce industry is expected to continuously grow and reach RMB410.4 billion by 2026, at a CAGR of 9.9% between 2021 and 2026.

Market size of China’s beauty and personal care community-based social e-commerce industry, in terms of GMV, China, 2016–2026E



Source: the CIC Report

INDUSTRY OVERVIEW

Key drivers of China’s beauty and personal care industry

Increasing affluence and accelerating urbanization process. The increasing affluence and ongoing urbanization process in China has brought about significant changes in lifestyles, consumption patterns and the habits of consumers. Urban residents who have already been used to basic personal care consumption habits tend to use personal care products more widely and frequently than before. For instance, urban residents have been increasing the complexity of procedures in skin care, hair and body care, oral care and make up. Moreover, influenced by the consumption habits of urban consumers and with the increasing disposable income, rural consumers, which consist of a vast proportion of China’s total population, are nurturing their habits of personal care maintenance, thus increasing their consumption of personal care products.

Rising awareness in hygiene, health and beauty. With the rising consumption awareness and burgeoning demand arising from increasing purchasing power, consumers tend to increase their consumption budget on personal care products for a healthier life, better personal appearance and personal hygiene purpose. With the expectation of maintaining beauty, skin care and cosmetics products have shown strong sales performance with a deeper penetration as well as larger annual expenditures. With the increasing awareness of oral health, along with the Healthy China Strategy laying a solid foundation for the healthy development of oral care in China, oral care products have also demonstrated rapid growth. Furthermore, hair and body care products have embraced steady growth under the rising consciousness in hygiene.

Continuous market education from social media and the influences of popular cultures. Frequent market education via promotion and advertising on multiple social media tools have formed numerous touchpoints for cosmetics information for consumers living in all tiers of cities. The various promotion methods including makeup swatch and tryout, cosmetics tutorials, unboxing, experience sharing, KOL endorsement and live streaming sales on platforms including mobile media platform and e-commerce platforms have stirred large impact on consumers’ perception and consumption habits of personal care products. Consequently, a larger number of consumers are willing to purchase personal care products.

Increasing desire for better personal appearance for social life. Influenced by the market education, especially the experience of personal care maintenance shared by KOLs along with the infusion of cultures from advanced countries such as Japan that regard personal appearance as an important part of social life, there is a growing perception among consumers that personal appearance is important to achieve social, professional and financial success, which is related to a person’s self-confidence, social etiquette, status symbols and workplace etiquette to some extent. Along with the rising purchasing power, consumers are paying more attention to maintaining beauty standards.

Key trends of China’s beauty and personal care industry

Increasing popularity of emerging brands and China’s domestic brands. Emerging beauty and personal care brands that employ innovative approaches to new product rollout and consumer engagement, and provide high quality, value-for-money products for consumers, are rapidly gaining popularity among Chinese consumers. In addition, domestic brands have experienced increasing popularity in China in recent years. Many of China’s domestic brands are able to deliver high quality products at standards comparable to that of established international brands, with sophisticated approaches to formula and product development as well as adherence to global safety standards. Moreover, many domestic brands are more adept at digital marketing with a deeper understanding of evolving consumer preferences in China.

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Shift of distribution channels. The personal care market is experiencing a shift away from traditional sales channels, such as hypermarkets and supermarkets, department stores, etc., towards online and specialty retailers. The engagement of the digital ecosystem not only increased the efficiency of purchasing, but also changed how consumers interact with brands. More consumers now research personal products online and make purchase decisions based on user-generated content and social media influencers. Besides this, niche brands can engage consumers directly online without the advertising spending that established brands have traditionally used to acquire customers. Besides, instead of merely purchasing certain items, traditional in-store consumers are now increasingly looking for a novel shopping experience, therefore, specialty retailers such as Sephora and Watsons have developed and expanded rapidly in recent years.