China’s Social Networking Market

June 2011
**Key Points**

- Tencent leads China’s pure-play SNS market and is well positioned to maintain or extend its market share.

- Other internet giants adopting “Tencent model” of using social platforms to link their various products.

- Market to remain fragmented, with other pure-play SNS likely to maintain moderate growth.

- Microblogs a potential threat to SNS as they adopt core SNS revenue drivers.

- China’s pure-play SNS adopting open platforms, mobile, and open sharing to increase revenues and stickiness.
Discussion Topics

SNS & Microblog Market Statistics

SNS Market Characteristics

Key Development Trends

Summary
72% of SNS users use general SNS (Renren, Kaixin001) on a regular basis. 28% use industry or interest-specific SNS. 13% use regionally-specific SNS.

36% of users log in every day.

70% visit 2 or more different SNS daily.
## Q1 2011 Pure-Play SNS Snapshot

<table>
<thead>
<tr>
<th>Monthly Active Accounts (mln)</th>
<th>Ads</th>
<th>VIP</th>
<th>Gifts</th>
<th>In-Game Items</th>
<th>3rd Party Apps</th>
<th>2010 Revenues (USD/mln)</th>
<th>Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="QQ%E7%A9%BA%E9%97%B4.png" alt="QQ空间" /></td>
<td>334</td>
<td>X</td>
<td>X</td>
<td>Free</td>
<td>X</td>
<td>X</td>
<td>371</td>
</tr>
<tr>
<td><img src="%E8%85%BE%E8%AE%AF%E6%9C%8B%E5%8F%8B.png" alt="腾讯朋友" /></td>
<td>101</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>NA</td>
<td>Strong penetration with older, lower edu, 2\textsuperscript{nd}/3\textsuperscript{rd} tier</td>
</tr>
<tr>
<td><img src="renren.png" alt="renren" /></td>
<td>31</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>77</td>
</tr>
<tr>
<td><img src="%E5%BC%80%E5%BF%83%E7%BD%91.png" alt="开心网" /></td>
<td>35-40</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>39-46</td>
</tr>
<tr>
<td><img src="51.com.png" alt="51.com" /></td>
<td>40</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>NA</td>
<td>~60% 20-30, ~15% &gt;31, ~35% students, ~45% female, 2\textsuperscript{nd}/3\textsuperscript{rd} tier</td>
</tr>
</tbody>
</table>

Source: Marbridge, iResearch, Caijing
**Microblogs: Complement/Threat to SNS**

- Tencent integrating microblog platform with other products
- Sina Weibo adding SNS features such as social gaming

### Microblogging Registered Users

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Users/Mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2009</td>
<td>0</td>
</tr>
<tr>
<td>Q1 2010</td>
<td></td>
</tr>
<tr>
<td>Q2 2010</td>
<td></td>
</tr>
<tr>
<td>Q3 2010</td>
<td></td>
</tr>
<tr>
<td>Q4 2010</td>
<td></td>
</tr>
<tr>
<td>Q1 2011</td>
<td></td>
</tr>
<tr>
<td>Q2 2011</td>
<td></td>
</tr>
</tbody>
</table>

### Tencent Microblog

- Users less educated, less urban.
- QQ drives rapid growth, enjoys synergy.
- Already monetized through advertising.

### Sina Weibo

- Ad services to launch in 2011.
- Preparing to launch cartoon-style interface, Qweibo.
- Open game platform to debut this year.
- Exploring search, e-commerce, WVAS, premium content.
Discussion Topics

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- SNS Market Characteristics
- Key Development Trends
- Summary
Tencent’s Network Effects

Broad Product Portfolio Provides Multiple Channels for New Products

- Qzone accounts automatically opened by QQ IM registration, visiting Qzone via QQ.
- Leveraged network of websites using subsidiary Comsenz’s BBS software to accelerate uptake of QQ Connect.
- Uses QQ and other products to drive user traffic to MMORPGs, Tencent’s biggest revenue generator.
- Can operate new products at cost if it provides indirect benefits to other existing products.

Cross-Platform Linking Drives Traffic

Tencent products interlinked through URLs and synchronized status updates, providing overlapping layers of socialization.
Increasingly Competitive Space

As SNS functionality becomes more ubiquitous and more segmented, pure-play SNS face increasing pressure to retain users.

- Launched microblog, Tumblr clone, LBS, and Shanda Connect for Shanda Passport users in past 12 months.

- Launched browser game open platform in Q1 2011, plans ultimately to expand into a social network.

- Rumored Facebook partnership.
- Recruiting mobile SNS developers in Jan ‘11.
- Integrating Baidu Talk microblog with Baidu Post Bar forums.

- Tumblr clone Diandian, an Innovation Works start-up launched in Apr ’11, already has over USD 10 mln in first-round funding and 200,000 registered users. Aims to reach 10 mln users in 2011.
Discussion Topics

- SNS & Microblog Market Statistics
- SNS Market Characteristics
- Key Development Trends
- Summary
• 92 mln social game users in 2010, 27.4% would “definitely” leave an SNS that lacks games.

• Renren’s ~12 self-developed games accounted for 45% of 2010 revenue.

• Tencent launched two-tier open platform in late 2010, quickly expanding gaming titles on Pengyou, including 11 self-developed.

• Chinese SNS licensing overseas hit social games.

• Tencent Microblog, Weibo, and Renren to host Shanda browser, social games.

<table>
<thead>
<tr>
<th>SNS</th>
<th># of Games</th>
<th>Major Titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>QQ空间</td>
<td>~30</td>
<td>Happy Tower</td>
</tr>
<tr>
<td>腾讯朋友</td>
<td>~125</td>
<td>Jiayuan Shouwei Zhan</td>
</tr>
<tr>
<td>renren</td>
<td>~180</td>
<td>Tianshu Qitan</td>
</tr>
<tr>
<td>开心网</td>
<td>~90</td>
<td>Kaixin Zhuangyuan</td>
</tr>
<tr>
<td>51.com</td>
<td>~30</td>
<td>Dan Dan Tang</td>
</tr>
</tbody>
</table>

SNS pursue next big game title via self-development, licensing, and open platforms. Renren dominates, but Pengyou growing rapidly.
**SNS Going Mobile**

*With proliferation of low-cost 3G smartphones, mobile SNS poised to grow rapidly this year.*

**China Mobile Internet Stats**
- Mobile internet users: 303 mln in 2010, up 30% YoY
- Active mobile IM users: 262 mln in 2010
- Mobile SNS penetration: 37% in 2010, 23% in 2009
- 30% of users log in via mobile each day.
- 60/40 white collar/students
- 660,000 daily smartphone users, 50,000 daily LBS users.

**Tencent**
- 54% of China’s active mobile IM users on QQ, providing jump-off for social products.
- Released 6 3G QQ smartphones priced under RMB 1,000 with CT, aimed at teens.
- Along with Sina, licensed to provide wireless value-added services, unlike other competitors.
Social Commerce Still Immature

- Tencent yet to integrate e-commerce with SNS.
- Renren, Kaixin001 adding value with group buy.

- Presence of Tencent’s e-commerce properties on either SNS is limited to display ads for B2C/C2C Paipai and group buy QQ Tuan.
- Groupon JV Gaopeng is entirely absent.

- Launched in June ’10, Renren’s Nuomi now has branches in 32 cities.
  - Link on user profile to off-deck site Nuomi.com.
  - 60% of Nuomi users are Renren users.

- Kaixin001 launched a group buying channel featured on its profile pages in Feb ’11.
  - Covers 20 cities nationwide.
Summary

• Tencent’s mutually supporting products (IM, SNS, microblog) will ensure its continued lead in SNS market.

• Renren, Kaixin001 may see measured growth in face of competition from Tencent and other Chinese internet conglomerates.

• Tencent and Renren have advantage in key social game market, both in terms of access to capital and in-house game development expertise.

• Sina a potential threat to QQ IM, and in turn to Tencent SNS.